

CD-ARk-580  
1992

# Action Plan

## FY 1992-1993

# USAID/Peru

May 1991



Agency for International Development  
Washington, D.C. 20523

## TABLE OF CONTENTS

- I. RELATIONSHIP OF LAC OBJECTIVES AND THE PERU COUNTRY STRATEGY
- II. PERFORMANCE RELATED TO BUREAU OBJECTIVES
- III. SUMMARY OF NEW PROGRAM INITIATIVES
- IV. RESOURCE REQUIREMENTS

CHART 1: OPERATING EXPENSES FOR FY 90-93

CHART 2: STAFFING LEVELS FOR FY 90-93

- V. MISSION AND AID/W ISSUES

## ANNEXES

- A. NEW PROJECT DESCRIPTIONS
- B. TABLE I - MISSION WORKPLAN
- C. TABLE II - COUNTRY PERFORMANCE
- D. TABLE III - PROGRAM PERFORMANCE
- E. TABLE IV - LOCAL CURRENCY UTILIZATION FOR FY 90-93
- F. TABLE V - SUMMARY PROGRAM FUNDING TABLE
- G. TABLE VI - MISSION PROJECTS BY LAC OBJECTIVES
- H. TABLE VII - MORTGAGE ANALYSIS
- I. PERU COUNTRY PERFORMANCE - BUSINESS REGULATORY/ENVIRONMENTAL QUESTIONNAIRE

## I. RELATIONSHIP OF LAC OBJECTIVES AND THE PERU COUNTRY STRATEGY

### A. Introduction

Peru is undergoing an unprecedented economic and political transformation, and A.I.D.'s leadership is helping establish a new development and democracy agenda. Because of inappropriate policies Peru's economy has deteriorated steadily over the past three decades. Alternating crises of high inflation, recession, and balance of payments shortages have left Peru significantly poorer than it was in 1960. Per capita income has not only decreased, but also its distribution has become less equitable.

The inauguration of a new government in July 1990 bringing changes in the complexion of the country's political leadership is having a profound impact on Peru's democratic and economic institutions. But, major problems threaten the new administration and its ability to sustain the bold economic program it is implementing. Narcotics production and trafficking have assumed significant importance in Peru's economy, bringing in some \$600-700 million each year in illicit earnings. But, the narcotics industry harms the economy, depressing the foreign exchange rate and making legitimate exports uncompetitive in addition to corrupting democratic values and institutions. Terrorism, often aligned with narcotraffickers, further weakens democratic institutions and erodes the climate needed for new investments. A recent cholera epidemic and earthquakes further distort the country's ability to focus on and channel resources to developmental priorities.

The new government has initiated the most comprehensive and far reaching economic adjustment and stabilization program in Peru's modern history. It continues to complement these measures with structural reforms at an unprecedented pace. While these measures will establish the foundation for balanced growth in the future, in the short term, they impose additional burdens on Peru's chronic poor; political support for the new economic program could erode. Nonetheless, a number of positive measures may help Peru solidify its nascent adjustment efforts so that it can reactivate growth and development. U.S. assistance should grow rapidly in response to GOP efforts to address the country's narcotics problem. The Enterprise of the Americas Initiative and the Andean Trade Preference Act offer unique opportunities for growth of non-traditional exports. Forthcoming agreements with the international financial institutions (IFIs) should help address Peru's massive debt arrears and enable the IFIs to resume operations in Peru. With the establishment of a Support Group and Paris Club debt rescheduling, Peru will get out from under the 620(q) and Brooke Alexander sanctions that have distorted our program in the last few years.

### B. Current Policy Dialogue

Concurrent with the submission of this Action Plan USAID/Peru has prepared a new CDSS for the 1992-1996 period. The following outlines the Mission's strategic directions and the status of our dialogue with the GOP:

An overall policy framework and structural reforms that promote economic stability and sustained growth

The GOP is moving forward on implementing its new economic policy framework with new measures being put into effect almost on a daily basis.

The program was designed to reduce price distortions, improve tax collection, narrow the fiscal deficit and stop hyperinflation. Actions taken include the unification and floating of the exchange rate, substantial foreign trade liberalization and the freeing of controlled and subsidized prices and interest rates. These measures have been supplemented by a series of structural reforms including further lowering and reducing the dispersion of the trade regime. The foreign exchange market has been liberalized to allow residents to hold foreign currency deposits at home and abroad. The labor market structure is being changed, easing the negotiation of wages. A framework for privatizing many of Peru's 180 state enterprises has been established.

Peru has resumed payment on new IFI debt falling due, has reached a framework agreement with the IMF, and should have one soon with the IBRD. The IDB should resume operations in Peru this year after arrangements are made to clear arrears. The establishment of a Support Group should help mobilize the resources the country urgently needs to sustain its courageous reform program.

U.S. assistance through the provision of advisors and policy studies continues to be critical in defining the economic policy framework and to the GOP's analysis of adjustment and development options. The availability of large quantities of U.S. food assistance has been an important factor enabling the stabilization program to go forward as the GOP has been able to assure that minimum consumption needs of those most severely affected can be covered. And, Title III food assistance supports Peru's balance of payments and helps meet urgent food needs. U.S. leadership, however, in forming a Support Group and in providing ESF balance of payments support to sustain the economic program is urgently needed.

Reactivated private productive sectors generating employment, foreign exchange and increased productivity, while preserving natural resources

The new government's economic reforms provide an appropriate framework for the private productive sectors to grow rapidly, generate employment and increase incomes. Freeing of interest rates should direct credit toward efficient producers. The termination of export taxes and restrictions provides additional stimulus for non-traditional export growth. The elimination of price controls and subsidies along with hyperinflation has removed many of the uncertainties and distortions affecting investment. And, the GOP is facilitating the integration of large numbers of informal sector workers into the economy and making it easier for them to establish legitimate businesses and gain legal access to government services.

In spite of the favorable overall policy environment, Peru is in deep economic recession, with unemployment and underemployment at record levels. Per capita income is only some 40% of the 1988 level. The failure of the productive sectors to take advantage of current opportunities reflects the uncertainty associated with the adjustment program, lack of investor confidence because of years of business mistrust of government measures, and a wait and see attitude on the part of the business community as the impact of policy changes are reflected throughout the economy.

The new economic framework also provides a powerful stimulus for agricultural sector growth. The elimination of government marketing monopolies and price controls opens the way to increased private sector participation in the sector. The GOP has established the basis for the functioning of a relatively unimpeded land market, now permitting agricultural land to be mortgaged. And, non-traditional exports should benefit from the open trading system and beneficial foreign exchange and remittance measures.

The agricultural sector should respond quickly to the new policy framework. But, chronic problems must still be overcome, and addressing them will be difficult given the country's limited investment capacity. The policy analysis function within the sector needs to be institutionalized so that policy makers can have ready access to current information and policy alternatives. Additional reforms of labor, marketing and transport constraints must be addressed. A system for disseminating new technology must be established to deliver production packages developed in response to farmer demand. Cost recovery schemes need to be built into expensive irrigation systems and technical assistance provided to growers on proper water management. And, rural savings must be mobilized and the banking structure reformed to bring urgently needed credit to the sector.

Replace coca-based employment and foreign exchange earnings with legal alternatives

The United States and Peru concluded an umbrella narcotics control agreement on May 14, 1991, that will permit a comprehensive approach to Peru's drug production and trafficking problem. Economic, military and law enforcement resources will be directed in an integrated program to restore security in coca-producing areas, to drive the price of coca down toward production costs and to stimulate the transition of coca growers into the legitimate economy. But continuing security concerns and corruption impede rapid progress. Furthermore, U.S. resources contemplated under the umbrella agreement will take months to arrive and even longer for Peruvian military and police forces to be able to use them effectively.

The GOP is putting together an Autonomous Authority for Alternative Development (ADA) that will coordinate all domestic and external economic resources directed toward the narcotics problem. But this institution faces political and constitutional challenges and it will be difficult to impose already existing programs on this new institution, which will also take time to get established. Until ADA is established, our only interlocutor on economic assistance and foreign exchange earnings with legal alternatives will remain the President and Finance Minister.

While it will take time for the GOP to reestablish physical security and effective civilian control in the coca growing areas as well as to mount a more aggressive enforcement and interdiction program, it nonetheless has removed several of the key barriers to the growth of legal income alternatives for coca farmers. The overall economic adjustment and structural reform program has removed the greatest distortions inhibiting legitimate economic activity and provided the foundation for balanced growth. The elimination of price controls and grain marketing monopolies are increasing the returns to

legitimate crops, making them more competitive with coca. The elimination of controls on farm inputs should direct them into proper channels. And, the elimination of interest rate controls over time should increase the amount of credit available to legal crop producers. Finally, GOP interest in improving the efficiency and effectiveness of the justice system could place narcotics producers under increased threats, making legal income-earning opportunities more attractive.

#### Strong democratic institutions that reinforce economic freedom

We share many of the same priorities as the new administration to strengthen Peru's democratic institutions. The government has assigned priority to improving the judicial system, attacking corruption, following through on regionalization efforts and making the decision making process more open and transparent and accessible to all citizens. But the government has not supplemented its good intentions with a comprehensive program or strategic approach to address these problems. And, a divided Congress continues to defer to the executive branch to enact laws as the legislature is unable to develop a consensus on matters of national priority. Furthermore, human rights abuses threaten our ability to continue providing economic assistance.

A strengthened policy dialogue should enable USAID to help establish the democratic policy agenda. USAID is working with or in close contact with leaders in areas where changes are needed. But, without an effective interlocutor within the executive branch our activities and efforts to support Peruvian initiatives are tentative, and undertaken only after close consultation to ensure that we are not perceived to be supporting partisan political interests. USAID staff vacancies have also impeded our ability to pursue this objective more effectively.

#### Improved health status through access to quality primary health care

Family planning activities continue to expand with strong Presidential support, and 1991 has been designated officially as the "Year of Austerity and Family Planning". Government-wide priority has been assigned to issues of reproductive health, and the new administration has strongly attacked those opposing its priorities. The government's new economic policies should enable commercial family planning providers to increase contraceptive coverage through unimpeded marketing of contraceptives and new regulations that will expand the number of supply outlets. The government continues to encourage A.I.D. efforts to expand the coverage of family planning and health services through PVOs, and our efforts are increasing not only their coverage but also their management capabilities and capacity to recover costs.

Public sector family planning and health activities, however, are plagued by poor coverage, staff shortages and lack of a continuous flow of supplies, with almost all attention fixed on the current cholera epidemic. Low wages and uninterrupted strikes continue to depress public sector preventive health care efforts. Low levels of investment resources will continue to constrain the GOP's ability to expand its coverage of preventive health care activities.

USAID has not been able to get the public health sector to focus on real priorities. This is due in part to institutional inertia, the directions of our current program, and our earlier inability to offer viable alternatives. We have now completed strategies for family planning, child survival and breast feeding, and future efforts will be guided by them. We have now established an agenda for our work with the public sector, and resource allocation decisions will depend upon Peruvian progress in addressing our concerns. These include a reorientation of resources away from urban curative care to preventive services, greater collaboration with the private and PVO sectors, increased attention to cost recovery measures, and more incentives for a reduced public sector staff to improve the quality of primary health care interventions.

## II. PERFORMANCE RELATED TO BUREAU OBJECTIVES

### A. Program Status

An overall policy framework and structural reforms that promote economic stability and sustained growth

The new administration's economic adjustment and structural reform program is having a dramatic impact on Peru's economic prospects. Inflation, which was running at about 40% per month, has now been reduced to around 5% and continues to drop. Foreign exchange reserves have grown from minus \$165 million to over \$500 million. The exchange rate was liberalized although low foreign exchange demand and narcotics income continue to depress the dollar exchange rate. The large fiscal deficit has been eliminated, and tax revenues as a percentage of GDP have gone from a low of 3% to 7.5%. Interest rates are now positive in real terms, and determined on the basis of market forces. The enormous distortions in relative prices caused by widespread controls and exchange rate manipulation have disappeared. The sharp reduction of import tariffs and customs controls are compelling domestic producers to become more competitive.

A.I.D. assistance through the Policy Analysis Planning and Implementation (PAPI) project has been key to the definition and execution of these policy reforms. A project financed lawyer has drafted all the decrees that comprise the program. A financial advisor completed the banking reform law, which greatly liberalizes banking operations and will continue to work on the restructuring of public development banks. An energy policy study resulted in the government's recent decision to continue adjusting petroleum prices in line with inflation and financial needs. And, project assistance has established a framework for privatization, and we are currently carrying out a financial analysis of 14 enterprises as the basis for their divestiture.

The Mission also established a system for monitoring, evaluating, and reporting on the Peruvian economic reform program and its impact on macroeconomic performance. The system has played a critical role in informing USG agencies in Washington, helping develop a consensus on the need to support Peru's economic reform efforts.

PL 480 Title II food assistance and monetization programs under Section 416 and Title II have been key to reducing social unrest in the face of the austerity program. Almost 3 million Peruvians, or 15% of the population, benefit daily from U.S. food assistance. In addition, employment generation programs are just getting under way that should have an impact on future growth and productivity.

The greatest shortfall has been delays establishing a Support Group to bring together the donor community to help sustain Peru's courageous economic reform program. Narcotics and human rights conditionality further constrain our ability to provide balance of payment support and to galvanize the donor community.



Reactivated private productive sectors generating employment, foreign exchange and increased productivity, while preserving natural resources

Our strategy to reactivate the private productive sectors focuses on non-traditional exporters, the small business community and agriculture. Pending the authorization of the Investment and Export Promotion project later in FY 91 and the Small Business and Employment Expansion project early in FY 92, current Mission activities focusing on exporters and small enterprises are limited. Because overall economic policies were not conducive to private sector growth until recently, our involvement was restricted to human resource and institutional development activities that could contribute to growth once the policy framework was more favorable.

The Private Sector Management Improvement project continues to produce highly skilled senior level entrepreneurs. One participating institution has broadened its focus to provide elementary management skills for small businessmen and women, which will contribute to increase productivity and job creation within the small business and informal sector. And, the University of Piura has had significant success in developing a mango exporting community that is able to ensure compliance with U.S. phyto-sanitary requirements. Support to the Confederation of Private Entrepreneurs (CONFIEP) under the Private Sector Policy Planning project has resulted in the consolidation of a vigorous voice for the private sector, which affects public policies. This organization has taken a mature approach to the GOP's economic adjustment program and is providing critical private sector support for it. This project has also been providing graduate training to mid-level personnel at the Central Bank, many of whom have been tapped by the new administration to take key managerial positions in government institutions. The Central Bank's staff reputation as a highly skilled and professional cadre has converted them into President Fujimori's storm troopers of economic reform. Activities carried out by the Institute for Liberty and Democracy under the Private Sector Institutional Reform project have reduced bureaucratic barriers to establishing businesses in the formal sector while simplifying administrative regulations.

Agricultural policy studies carried out under the Policy Analysis and Institutional Development project have provided guidance for the adoption of many of the Government's new free market policies within the agricultural sector. They contributed to the decision to dissolve the corn monopsony, ECASA, and to the elimination of all privileges for public sector marketing organizations and the requirement that they compete on an equal basis with the private sector. Problems affecting the Agricultural Technology Transformation project have limited its contribution to increased farm level output, but significant changes in the project in the past year will contribute to its capacity to mobilize public-private cooperation in the generation of new technology sought by Peruvian producers. The President's decision to remove two university advisors and to restructure the project, and USAID's efforts to redesign the project with the Peruvians has resulted in a modified focus that meets USAID's requirements while mobilizing unprecedented GOP interest in and support for this activity. The GOP has greatly increased its financial contribution to this project while more tightly focusing research activities on demand driven priorities.

Delays in securing NSD-18 funding have sharply restricted our ability to help reactivate the productive private sectors. The policy environment has been appropriate and we have had the Investment and Export Promotion ready for authorization for some months. Our future capacity to achieve this strategic objective is contingent upon making urgently needed funding available to USAID.

Replace coca-based employment and foreign exchange earnings with legal alternatives

Security problems have continued to restrict the Upper Huallaga Area Development project, but activities have continued in spite of the problems. Project personnel have been murdered, vital bridges and roads destroyed, and legitimate private sector participation held back. Nonetheless, this project has accelerated alternative development activities at the farmer level. Six extensionists are now working with cooperatives in the heart of the coca growing zone, and others are working throughout the UHV. They have set up model plots and are working directly with more than 20 local producer associations to increase the production of legal crops. The Mission has also made considerable progress on the design of a road rehabilitation activity in the Upper Huallaga Valley to improve market access for legitimate products.

Under the Narcotics Education Initiative CEDRO has continued to build a consensus in support of aggressive GOF action against drug production and trafficking. It has expanded its outreach to community organizations and initiated a program of grants for local anti-narcotics activities. Furthermore, it completed the second survey of drug use in Peru.

A.I.D.'s ability to have a greater impact on this objective is limited by exogenous factors. President Fujimori's September 1990 rejection of U.S. military assistance for anti-narcotics activities has delayed the achievement of a secure environment within the UHV. And, corruption and a weak commitment to anti-narcotics law enforcement and interdiction have allowed coca prices to remain attractive. The GOP is taking positive steps to correct the inappropriate economic policy framework that made coca production the only viable option in the UHV. It must now supplement these measures with better efforts to restore security and drive the price of coca leaf down further toward production costs.

Strong democratic institutions that reinforce economic freedom

While we share many of the interests of the new administration to strengthen democratic institutions, it has not yet signalled its priorities or its approach to overcoming critical constraints. We have continued to have major problems in securing system-wide commitment to improve judicial efficiency under the Administration of Justice project. Since the National Commission was unable to mobilize a cooperative and effective working relationship with the three implementing entities we have terminated our support for the Council, while continuing to work directly with the implementing institutions on activities that can be expanded in the future when we have an agreement on fundamental systemic changes. In the meantime, a successful case management system which has been tested in ten Lima civil and

criminal courts is being expanded to all courts in the Lima district. And, we have continued to consolidate this project around four activities with significant potential to promote greater efficiencies and to better train judicial sector personnel.

ILD's pioneering activities have led to the granting of property titles to over 30,000 urban slum dwellers. This will increase the value of their property, encourage them to invest in improvements and foster their support for civil authority. ILD continues efforts to define systematic causes of corruption, and it has developed successful democratic decision making procedures for two new regional governments.

The Andean Peace Scholarship Program exposes participants to the advantages of fully participatory democracy and free enterprise economy.

#### Improved health status through access to quality primary health care

Advances under the Child Survival Action project have contributed to Peru's successful containment of the current cholera epidemic. A project supported field epidemiology program trained the personnel that initially diagnosed the disease in record time. The health information system enabled the Ministry to track the spread of the disease. The availability of oral rehydration salts (ORS) from an A.I.D.-assisted Peruvian manufacturer, and personnel trained in ORS technology greatly reduced the number of fatalities. Unfortunately, however, the public sector's concentration on the cholera problem has prevented action on urgently needed policy reforms including focusing resources on preventive care, greater cooperation with the private sector and new cost recovery schemes.

Significant improvements in the management of family planning PVO's have been initiated under the Private Voluntary Family Planning project. In addition, the project implementing organization assumed responsibility for managing the supply of all A.I.D.-financed contraceptive supplies to the public sector. This has improved the logistical system, managing supplies in a much more responsible manner.

#### B. Evaluation Plans

In preparation for developing the 1992-1996 CDSS, which is being submitted concurrent with the Action Plan, USAID carried out a series of in-depth studies of individual sectors and developmental issues. These were complemented by sectoral strategies completed in the past year on child survival, population, breastfeeding and regional private sector health care financing. In view of these efforts to focus on broader developmental issues affecting our program we do not anticipate further examination at the sectoral or macroeconomic level with the exception of one activity to develop a food assistance strategy.

There are two issues that we will evaluate in depth over the Action Plan period. The first is an assessment of alternative development efforts in the coca growing zone to determine which types of activities hold greater potential for future success. The second will be an examination of factors

influencing the adoption of growth producing agricultural policies, and the relative impact that differing institutions have on the development, articulation and implementation of these policies. Both of these evaluations will be useful in the development of new projects contemplated in this Action Plan.

### III. NEW PROGRAM INITIATIVES

The number of new project designs for the FY 92-93 Action Plan period reflects the positive economic policy climate resulting from bold and comprehensive economic reforms initiated in mid 1990. New project starts also respond directly to added resources available under NSD-18 to support expanded job opportunities and licit alternatives to coca production. After years of struggling with the various project implementation constraints under Section 620 (q) and Brooke-Alexander sanctions, the Mission expects that a Paris Club re-scheduling will take place later in 1991. Therefore, beginning in FY 92, project designs factor in a broader and more flexible range of contractual and implementation arrangements.

Most importantly, the Action Plan period will coincide with the first two years of the Mission's new CDSS, and new projects are both more focused and responsive to LAC Bureau and Mission strategic objectives. Each new and ongoing project will directly contribute to the accomplishment of a particular strategic objective through the various program components the Mission will support over this period. The Mission strategy supports projects which contribute to economic stabilization and structural reforms, productive private sector growth, increased health status and democratic strengthening, but at the same time, also help to achieve the Mission's approved Counternarcotics Strategy. All objectives are inter-related, cross-cutting and mutually supportive.

One new start for FY 91 was not previously anticipated. The Employment and Natural Resource Sustainability Project is an unsolicited proposal the Mission recently received from The Nature Conservancy. While we had anticipated designing a biodiversity project in the future, we have now decided to move more rapidly in the conservation area with this unsolicited proposal.

During this Action Plan period, focused project efforts will support an overall policy framework and structural reforms which promote economic stability and sustained growth. Urgently needed analyses and studies will be supported through the Policy Analysis, Planning and Implementation Project, to assist the highest levels of the GOP in obtaining current data and information in order to sustain its implementation of a series of critical economic reforms. A Balance of Payments program, which will begin in FY 91, will provide needed resources to assure the government continues implementing appropriate macroeconomic policies during this painful stabilization and structural adjustment process. A.I.D.'s food assistance program is a key component of our strategy to support a proper policy framework. A new FY 92 project will respond to the need to provide a social safety net to assist vulnerable populations through this adjustment process, which is:

#### FY 92

##### 527-0353 PVO Program Support

This umbrella project will consolidate Title II efforts previously provided through four separate agreements to support greatly expanded food distribution programs through FY 94, after which project efforts will focus more on targeted high risk nutrition activities and community development projects under our health objective.

A second priority area will be to expand efforts to reactivate the private productive sector to generate employment, foreign exchange and increased productivity. This will include a stronger private sector emphasis on small business enterprises, agriculture technology dissemination to small commercial farmers, and an innovative effort to increase incomes of local communities through sustainable natural resource management. New projects designed to achieve this objective are:

FY 91

527-0341 Employment and Natural Resource Sustainability

FY 92

527-0357 Policy Analysis for Private Agriculture Development

527-0350 Small Business and Employment Expansion

527-0348 Selva Economic Revitalization

FY 93

527-0359 Agricultural Credit and Rural Savings Mobilization

527-0358 Agricultural Technology Dissemination

A third area will be an expanded more concentrated and inter-related series of interventions to support strong democratic institutions which reinforce democratic freedom. New activities include a strengthened judicial system, expanded access to information for the legislature, reducing corruption, assisting regional and municipal governments and promoting the growth of local organizations as promoters of civic education. New projects proposed during this period include:

FY 92

527-0340 CLASP II

527-0352 Judicial Reform

527-0347 Narcotics Education and Community Initiatives

FY 93

527-0356 Democratic Initiatives

A fourth area, which will reorder and streamline our large child survival and population portfolio, is to improve health status through access to quality primary health care. Focus will be on strengthening preventive health care through a better public-private sector partnership, expanded and sustainable private sector efforts, and instituting policy reforms in the Ministry of Health. A new project to support this objective is:

FY 93

527-0360 Non Project Assistance/Health Policy Reform

Most new projects will continue key elements of existing projects which will terminate during this Action Plan period. For example, in FY 91 out of a total of 14 projects, 9 will terminate or not receive funding support during the year. In FY 92, 3 projects will terminate; and likewise in FY 93, 2 will terminate. New projects which will continue addressing important strategic objectives include the new Judicial Reform Project which will improve and focus more on specific judicial strengthening activities. This new project will be closer to our narcotics objective than our current Administration of Justice Project by ensuring an appropriate system for prosecuting narcotics-related crimes. The current Child Survival Action Project with the Ministry of Health (MOH), terminates in FY 93. The FY 93 Health Policy Reform program will enable high level policy dialog and needed changes to take place in the MOH which will assure increased support to preventive services and public-private collaboration.

The Policy Analysis for Private Agriculture Development will continue efforts under the PADI project, but will focus more on institutionalizing the capability to conduct policy analysis within the Ministry of Agriculture. Similarly, the new Agriculture Technology Dissemination Project will continue with certain of the activities supported under the ATT project, but will encourage more dissemination of technology directly to small producers through extension, training and programs more directly focused on farmer needs. The Narcotics Education and Community Initiatives Project with CEDRO will expand upon the work done in the current project, but will emphasize more community involvement to build and sustain a more aggressive attack on drugs expected from the GOP. The new Andean Peace Scholarship Program, or CLASP II Project, will support short and long term training in the U.S. but will prioritize training for community leaders and organizations in the promotion of pluralism and democratic values. Also, drug awareness and the impact of drug abuse will be a topic included in all training programs.

Three new projects support expanded actions in line with our strategic objectives within the CDSS. They include the Small Business and Employment Expansion Project (already approved as part of our Counternarcotics Strategy), a Democratic Initiatives Project and an Agricultural Credit and Rural Savings Mobilization Project.

Over the Action Plan period, we plan to design 11 new projects, 8 of which are continuations of previous projects supporting critical elements of our strategy. Most new designs are responsive to our expanded NSD-18 program. Out of the 11 new projects, 5 are funded through ESF, and are directly responsive to our Counternarcotics Strategy. Therefore, except for new initiatives in Natural Resources, Health Sector Policy Reform and Rural Savings Mobilization, our DA program will have approximately the same number of projects and level of effort.

#### IV. RESOURCE REQUIREMENTS

##### A. Summary

In the past two years the Mission has carried out substantial cost cutting measures. A realignment of functions to better relate staff to program priorities in FY 90 included cutting back 21 positions, from a total of 192 to 171 personnel. Last year, we sublet a portion of the USAID Office Building to the Embassy, which decreased costs dramatically. Non-expendable property purchases have also been limited within the past few years. The Ambassador recently completed a post-wide NSDD-38 exercise to determine US personnel requirements for each Agency. The result of this analysis concerning USAID staff levels confirmed that current levels were required to adequately manage our program. Prior to the NSDD-38 exercise, USAID decided to reduce one USDH during FY 91 when the current incumbent leaves post, with a resident hire taking over the function. Also in line with streamlining functions, promoting efficiency, and assuming the Mission will no longer have responsibilities for the ADCs (Brazil, Chile and Colombia), we will come down an additional 7 FSN positions over the period from FY 90 to FY 93.

During the Action Plan period, the Mission will take on a large expanded Counternarcotics Program, with essentially no additional personnel or OE resources to manage this new effort which totals \$200 million for FY 92 - FY 93. Likewise, in FY 91 the Post changed from LQA to Government Leased Housing. This has already required additional management time to handle the leases and maintenance this new program requires. Therefore, the Mission needs the same dollar OE resource we have in FY 91 for the next two years, or through FY 93. Given the previous cost cutting measures, and the expanded program requirements, this straight lining is actually the minimum dollar requirement needed to run the program.

##### B. Operating Expense Budget

In addition to the unsettled economic conditions described below, two major concerns could affect our OE requirements - the revision of the FSN local compensation plan which includes the FSN severance plan, and the establishment of an OE Trust Fund. Due to recent changes in the local compensation plan and changes in GOP legislation concerning employee compensation and benefits, the post requested a full wage survey and classification review in FY 91, which we understand will take place in early FY 92. In order to meet the last salary increase, the Mission was forced to suspend the advance severance benefit to FSN employees until the compensation plan is revised. Therefore, advance severance payments, have not been included in our projections. The full wage survey and classification review programmed for FY 92 is seen as essential to the normalization of the compensation plan. Wages are not expected to return to pre FY 91 levels when they were unrealistically low.

##### 1. OE Dollar Requirements

During the last few years the Mission has aggressively sought to reduce the OE budget despite a period of economic chaos which has produced high local costs. We decreased our share of the office building cost by almost 50% by renting space to other U.S. Government agencies. We have limited NXP purchases, and vehicle purchases have been suspended since FY 87. Personnel levels have been reduced. These cost savings have brought us down



to the current level which meets our minimum requirements. It will, however, be necessary to resume long delayed vehicle replacement to avoid high repair costs and unacceptable service reduction. Household furniture and equipment replacements are also behind schedule but less critical. Some office equipment replacements will be required.

Despite efforts to reduce costs, factors beyond our control created a sharp rise in dollar requirements in FY 91. Hyperinflation during the past three years created a wage/price spiral that accelerated geometrically until the Fujimori adopted a program of economic adjustments, which caused inflation first to skyrocket, and then to drop precipitously. While the exchange rate stabilized, wages and prices continued to rise for several months, with the result that the dollar cost of operating in Peru increased tremendously. FSN compensation, which represents the single largest OE budget element and had remained relatively constant in dollar terms, suddenly doubled. Our OE requirements increased by 35% from FY 90 to FY 91 to a total of \$5.77 million. Although there are some indications that the high dollar costs will decrease with a more realistic exchange rate as the economic restructuring takes full effect, our projections assume a stable exchange rate relationship.

Inflation reached a "low" 5.8% for the month of April 1991 (annualized 96.7%), which was the lowest rate in 47 months. The current trend is encouraging and enables us to budget with more confidence than in the past. We assume that the GOP will continue to control inflation and by FY 92 it should be below 60% annually. There should be a greater relationship between inflation and exchange rate depreciation which will enable the Mission to cover local currency OE increases due to inflation with corresponding changes in the exchange rate.

The following table outlines OE budget requirements over the 1990-1993 period:

Chart 1: OPERATING EXPENSE BUDGET (U.S. \$ THOUSANDS) F I S C A L    Y E A R				
FUNDING SOURCE	ACTUAL FY 90	P R O J E C T I O N S		
		FY 91	FY 92	FY 93
Dollar O.E.	4.274	5.770	4.270	4.270
Trust Fund O.E.	0.000	0.000	1.500	1.500
T O T A L	4.274	5.770	5.770	5.770

Based on current projections the approved FY 91 annual level of \$5,770,000 should be sufficient assuming that no additional salary increases will be approved or any changes, particularly those related to severance pay, would be covered within the current level. In fact, if the

exchange rate continues to improve, a reduction may become possible. This budget includes \$300,000 for NXP purchases of needed residential and office replacement property, ADP hardware and software primarily related to the LAN, and vehicles. No activities related to corrective actions being taken as a result of the FY 89 Internal Control Assessment will require additional funding during the planning period.

## 2. OE Trust Funds

Completion of the ESF Cash Transfer has been set back by delays in making the INCA determination needed to release NSD-18 funds. The establishment of an OE Trust Fund will now be implemented in FY 92. Per recent guidance from AID/W we will assume Trust Fund coverage of no more than 25% of OE requirements to avoid overdependence on this funding source.

We will finance \$1,500,000 from Trust Funds for OE expenses each fiscal year. If the Bureau needs to free up additional dollar funds, USAID/Peru could attempt to negotiate almost \$3,000,000 annually for Trust Funds.

The Mission will negotiate with the GOP on an annual basis as long as we have an ESF Cash Transfer program to secure sufficient Trust Fund deposits to cover projected 18-month OE needs. The Mission expects to maintain the value of local currency by setting up interest-bearing accounts, now permitted by new financial regulations to earn positive real rates of interest, and by closely monitoring withdrawals. We do not expect to use reverse accommodation exchange.

## 3. Staff Levels

In FY 91 we will be reducing one USDH position, which will be replaced by a resident hire PSC, and we are optimizing the use of project funds when appropriate. For example, in FY 93 an OE funded USPSC contractor will become project funded under a PVO support project. Assuming that the Bureau is able to find an alternative financial management location for the ADCs of Chile, Colombia and Brazil, the Mission would be able to reduce staffing by one US Resident Hire PSC and one FSN PSC during FY 93.

As part of the recently completed NSDD-38 exercise, all U.S. government agency staffing levels were carefully reviewed. Both the Ambassador and the Mission are satisfied that the current Mission levels are the absolute minimum necessary to carry out the important expanded programs planned for the coming years.

As a result of a major realignment of functions, overall staffing levels have fallen from 192 at the end of FY 89 to a projected 167 by the end of FY 91. Further minor reductions will be possible in FY 92 and 93. Unfortunately, because of the economic adjustment, Peru has changed from a relatively cheap labor market to a high cost one, so the expected dollar savings have been less than expected. While we are planning for a greatly increased level of project activity over the Action Plan period, the Mission believes that staffing levels should be adequate to cover projected needs.

The following table summarizes OE-funded staffing levels:

Chart 2:  
OE Funded Staff Levels

<u>Type of Personnel</u>	<u>E n d o f F i s c a l Y e a r</u>				
	<u>89</u>	<u>90</u>	<u>91</u>	<u>92</u>	<u>93</u>
USDH	20	19	18	18	18
US PSC	2	2	2	2	1
US RH	2	1	1	1	1
FSN DH	45	43	42	42	42
FSN PSC	<u>65</u>	<u>106</u>	<u>104</u>	<u>101</u>	<u>100</u>
	134	171	167	164	162
MANPOWER (HYBOSA)	<u>58</u>				
(charforce, drivers, maintenance, etc.)	192				

Assumes in FY 92 USAID/Peru is no longer responsible for the ADCs (Brazil, Colombia and Chile.)

#### 4. Local Currency Planning and Uses

Title I/III: Local currencies generated by the sale of previous Title I commodity imports were programmed through mutual agreement with the Government of Peru to support the local currency costs of USAID assisted development projects. The mechanism required the consent of the Peruvian Congress for the special Counterpart Budgets periodically presented to it. This system worked well, and did not experience undue delays. The majority of the funds were allocated to public sector entities implementing USAID/GOP bilateral programs. However, several private sector institutions received local currency funding from Title I under sub-agreements with these public sector entities.

Beginning in FY 1991, A.I.D. will replace the previous Title I program with a Title III grant for food commodities. The Title III commodities will be monetized through a private commercial entity, with funds deposited with and distributed by the GOP. As with Title I, local currency uses will be mutually agreed upon by the GOP and A.I.D. Under GOP regulations, grant generated local currency does not require the approval of the Peruvian Congress to be programmed and disbursed. This may reduce the time and administrative overhead involved in disbursing these funds.

Title III local currency may be used for a wider range of activities than Title I under GOP regulations, and the Mission intends to use Title III local currency to make grants directly to private sector and PVO institutions. As with Title I local currency, we will continue to finance the GOP counterpart requirements for A.I.D. projects with Title III local currency in addition to GOP projects consistent with our strategy.

As a condition of the Title III Agreement, local currency will not be used to finance operational costs or salaries. All permanent personnel costs will be supported by the GOP with funds other than from Title III.

Those agencies presently receiving support from Title I have considerable experience in managing these funds. The Mission intends to examine rigorously the financial management capability of all new recipients of P.L. 480 local currency.

ESF: Local currency will be used in accordance with A.I.D.'s Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency. Local currency will be programmed for specific project support to help meet the host country's contribution to ESF-funded projects that support our counternarcotics objective. It may also be used to finance GOP and other donor activities. Funds will also be used for audits and evaluations.

ESF local currency will be programmed with and managed by a Technical Support Unit in the Ministry of Economy and Finance. This is the same unit that currently manages Title I local currency. This unit has demonstrated the financial, technical and accounting capacity to manage GOP-owned local currency properly.

In addition, local currency will be used for an Operating Expense (OE) Trust Fund. We anticipate negotiating an agreement under which the GOP will provide sufficient resources to finance 25% A.I.D.'s OE local currency requirements over an 18 month period.

Title II: Title II commodities are monetized to generate funds to support the ongoing PVO food assistance programs in Peru. The funds partially meet the resource requirements of these organizations to implement their regular and emergency food programs that benefit the poorer segments of the Peruvian population. CARE has sold commodities in the past, and deposits funds generated in a dollar denominated account to ensure maintenance of value. USAID approves the transfer of funds from the account in local currency to the participating food and PVOs on a quarterly basis to meet their needs. A local accounting firm audits all activities financed.

Section 416: The local currency derived from the sale of U.S. commodities is used for specific projects that assist the urban and rural poor by generating employment, improving health and sanitation services, and increasing agricultural production and productivity through increased employment. As with Title II, local currency commodities are monetized by CARE, and then deposited in a special account in dollars. A specially hired local accounting firm disburses resources to specific projects approved by USAID and the GOP implementing entity, INADE. This accounting firm will also audit all activities financed.

C. Development Assistance

The proposed DA levels exceed the Congressional Presentation and AAPL levels for FY's 92 and 93, respectively. We have proposed higher levels in recognition of Peru's recent outstanding macroeconomic performance and because of the efforts that the country has undertaken to stimulate private productive sector growth. The quality of Peru's structural adjustment program, the urgency of additional support after years of declining program levels and to recognize Peru's special needs to complement its recent counternarcotics efforts fully justify the proposed higher levels.

D. Economic Support Funds

The proposed ESF levels of \$100 million for both FYs 92 and 93 are consistent with resources that have been included in President Bush's Andean Anti-Narcotics Initiative under NSD-18. We will need the full amount of ESF programmed for each fiscal year to support our counternarcotics efforts which are fully integrated with and supportive of the Mission's strategic objectives of supporting needed economic stabilization and structural reform and strengthening democratic institutions.

E. PL 480

Food aid programs form an important part of the Mission's strategy to support economic stabilization and structural reforms as well as to improve health status by combatting malnutrition and reducing infant mortality. We propose to continue the Title III program at an annual level of \$30 million. In addition to supporting an appropriate macro-economic policy framework through the program's balance of payments impact, we will condition these resources as required on agricultural sector policy reforms that may be identified.

The proposed humanitarian food assistance program includes Title II commodities, monetized Title II, and Section 416 resources. We propose a direct Title II food distribution program averaging \$49 million for both FYs 1992 and 1993. This amount includes estimated transportation costs. Commodities will be distributed by four U.S. or Peruvian PVOs for maternal child health, food for work, and expanded community feeding programs. This program, currently reaching almost 3 million poor Peruvian, has been key to containing social unrest that could jeopardize the Government's maintenance of its economic stabilization program.

We also propose to monetize approximately \$13-15 million in Title II commodities in both fiscal years, including freight costs. Local currency generated from the monetization program will be used to cover the additional in-country transportation, storage, administration and management costs incurred by the PVOs in implementing the food assistance program responsibly.

We also propose to monetize approximately \$15 million in Section 416 food commodities (including transportation costs) in each of fiscal years 1992 and 1993. The proceeds will be used to finance part of a social adjustment program to improve nutrition, create employment and increase productive potential in the future, and to address urgent primary health care needs. This could include water and sanitation needs related to the current cholera epidemic.

## V. MISSION AND AID/W ISSUES

### A. Mission Management of the ADCs

During last year's Action Plan review, AID/W agreed to explore divesting the Mission of any responsibility for financial management and executive office support to the ADCs (Chile, Brazil and Colombia).

Currently, the Mission's Controller's Office provides the full range of financial management backstopping for all three ADCs, and the Executive Office provides backstopping for Chile. To date, there has been no action taken on last year's Action Plan decision, and USAID/Peru continues to be expected to provide this assistance to these expanding ADC programs. This has required a USPSC Financial Management Analyst along with the equivalent of 24 PM of FSN time to service the ADCs. As these ADC programs expand more in the future, we cannot handle this workload without an additional increase in staff and resources. The Ambassador has made it clear that USAID cannot take on additional staff and resources to service the ADCs.

Therefore, AID/W needs to complete its review of the ADC backstopping responsibilities and relieve the Mission of the responsibility of handling financial and executive management services to the ADCs.

### B. Co-Location of USAID with the New Embassy Compound

While it is not clear, it appears that FBO building plans for the new Embassy compound may contain a second building which would include USAID offices. While the timing of this entire construction project will not occur anytime in the near future, USAID is developing alternative options for reducing OE costs such as a lease purchase arrangement on the current USAID office building. As the current lease will terminate in FY 93, we want to be able to make appropriate planning and budget decisions with regard to the future location of USAID.

We need AID/W determination on whether the plans for the new Embassy Compound include USAID, and if so, assurance that resources are being budgeted for this purpose.

### C. Delays in release of ESF PD&S Requirements due to INCA

Before narcotics related ESF may be obligated, the President must make a determination that the host country is implementing programs to reduce the flow of cocaine in accordance with bilateral agreements with quantitative performance criteria; the country has made significant progress in protecting human rights; and that the government has effective control over police and military counternarcotics and counterinsurgency operations.

State will not recommend a determination for satisfying this International Narcotics Control Act (INCA) requirement for Peru until an umbrella agreement is signed, strong counternarcotics actions are taken by the government, and there are improvements in human rights performance.

This means the Mission does not yet have access to the programmed \$60 million ESF for FY 91. Of this amount, about \$650,000 are PD&S requirements for critical design efforts for projects and activities expected to begin this fiscal year. We are already in the middle of the third quarter of FY 91 and the delay in providing the Mission with these PD&S funds is creating great difficulties in meeting the tight design schedules which have been established for counternarcotics activities for FY 91.

If the INCA language is carried over to FY 92 funds, AID/W should assure exemption is made for PD&S types of activities.

D. Trust Funds

The Mission was instructed during the November 1989 Counternarcotics Strategy Review to develop a Trust Fund as part of local currency uses from Balance of Payment support. The Mission is behind schedule and has not yet designed the Trust Fund. However, since that time, Agency policy has changed. Missions are now encouraged to decrease dependency on Trust Funds and decrease total amounts. Given this change in policy, should the Mission establish a Trust Fund?

If AID/W recommends we establish a Trust Fund, current Action Plan and ABS guidance recommends that Trust Funds cover no more than 25% of Mission costs. Our proposed plan does this. However, if requested, we could absorb increased local costs beyond the 25% from the Trust Fund. Should we plan to cover more than 25% of OE costs from a Trust Fund?

ANNEX A

NEW PROJECT DESCRIPTION FOR FY 91

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based sustainable economic growth; Promote investment, productive employment and export-led economic diversification.

PROJECT TITLE: Employment and Natural Resource Sustainability

PROJECT NUMBER: 527-0341

FUNDING: (\$000) FY 91: \$2,030  
LOP: \$3,600

TYPE OF FUNDING: ARDN

A. Consistency of Project with Mission Strategy: This project supports the Mission's objective of promoting private sector-led economic reactivation that generates foreign exchange, employment and boosts productivity. A complementary aspect of this strategy is to make use of Peru's diverse resource base.

B. Relationship to A.I.D. and Other Donor Activities: The project will build on the experience of A.I.D. initiated/supported activities, the Central Selva Resource Management Project and the Pampas del Heath National Sanctuary (a part of the Parks in Peril Program). In addition, information generated through research in the Trop Soils CRSP activity will contribute significantly to the project activities.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The objective of this project is complementary to a sound market-oriented macroeconomic policy framework that should facilitate private sector growth. This objective coincides with GOP priorities and LAC Bureau objective of encouraging a vigorous response by the private sector to a favorable policy environment.

D. Project Description: Goal: The goal of the project is to increase rural incomes through sustainable natural resource management and utilization while conserving biological diversity. Purpose: The project purpose is to increase incomes of local communities through the sustainable use and protection of biological resource in and near the Pacaya-Samiria National Reserve in the Department of Loreto. The project will strengthen the capacity of national and local non-governmental organizations, and local communities to utilize, develop, protect, and manage the reserve and adjacent lands. The project will accomplish its purpose through a series of activities that: a) create new jobs and small businesses; b) achieve development through sustainable natural resources management; c) emphasize local participation, and d) protect the integrity of the reserve.



Major development problems which this project will address include improvement of a currently low standard of living on the communities which rely principally on the Reserve and surrounding tropical forest for their livelihood. Protection and improvement of the currently diminishing renewable resources from which this livelihood is derived, and conservation and protection of a biodiversity-rich area which is in danger of extinction through improper exploitation will be supported.

Through a small grants fund, the project will make resources available to support natural resource management activities that will develop small businesses and generate income for local communities. Diagnostic studies prepared in advance of starting the small grants will indicate the best opportunities, the desires of the various communities, and the development potential of viable income generating activities. Special emphasis will be placed in identifying women as recipients of those grant funds and as small business owners to be assisted through project support.

The project will provide local and national NGOs with technical assistance and training for long term management of natural resources and protection of the Reserve.

A series of publications and educational outputs, ranging from technical bulletins, to manuals, to local radio programs, will be produced and disseminated through the project.

In addition to focusing on the Reserve, the project will prepare land use analyses and natural resources management plans for areas outside the Reserve. These activities can include cultivation of export crops, timber harvesting and processing, reforestation, and livestock production. All of these activities will complement those inside the Reserve.

A concerted effort will be made in the initial analyses to insure participation of women in all phases and aspects of the project. A gender disaggregation of the project's expected beneficiary results will be an integral part of the diagnostic studies.

A.I.D. Financed Input

Life of Project  
(US\$000)

Private Sector Resources Management	900
Technical Assistance and Training	790
Building Self-Sufficiency in NGOs	360
Management Pacaya-Samiria/Buffer Zones	830
Project Administration	500
Evaluations, Audits	<u>220</u>

T O T A L 3,600

OPG CONTRACTOR CONTRIBUTION TOTAL 1,469

E. Planned Implementation Arrangements: The project will be carried out through an Operational Program Grant (OPG) with the Nature Conservancy. It is anticipated that a Federal Reserve Letter of Credit will be issued to this PVO, from which reconciliation will be made on a predetermined basis. Expenditures of an acceptable level of matching funds provided by the OPG will follow the accepted project budget, and expenditures will be subject to review by the Mission. The Conservancy intends to contract with a select number of local NGOs for implementation of field activities.

F. Sustainability of Proposed Activities: Technical innovations and private sector income generating activities begun under the project should continue uninterrupted after project completion. Assurance of this will be based on development of accessible markets, products with profitable and far reaching demands, building a production capability of marketable products, adequate sensitization to the importance of sustainable practices in use of the forest products, and the strengthening of local institutions to continue the primary role of conserving and managing the country's resources.

G. Mission Management Role: The Office of Agriculture and Natural Resources will manage this project.

H. Potential Issues and/or Innovative Program Approaches:

- Mission requests PID approval.
- Is it realistic to link employment in surrounding bigger zones with utilization of resources generated through improved natural resource management?

NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth; Encourage a vigorous response by the Private Sector to a favorable policy environment.

PROJECT TITLE: Selva Economic Revitalization

PROJECT NUMBER: 527-0348

FUNDING: (\$000) FY 92: \$10,000  
LOP: \$60,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: This project directly supports the counternarcotics initiative by developing alternative economic opportunities in coca and potential coca producing areas. Effective narcotics suppression will reduce income and employment in coca production areas and increase the risk of adjacent areas being drawn into coca production. This project will promote sustainable private sector investments to create sustained growth and diversified rural economies in coca and potential coca producing areas.

B. Relationship to A.I.D. and Other Donor Activities: This project will build on the on-going Upper Huallaga Area Development Project by incorporating an expanded private sector role in alternative economic activities. It also will complement the proposed Selva-Coastal Road Rehabilitation local currency activity which will provide improved access between the Huallaga Valley and the coast. The GOP is carrying out sustained enforcement activities in the coca producing regions of the country. This project supports activities designed to develop licit alternative economic activities in these areas and complements the activities of UNIDCP, the drug control agency of the UN, which plans to re-initiate its alternative economic development activities in the valley. Under this project, bilateral donors will be encouraged to provide a general community development/infrastructure fund, as well as to support other development efforts in coca producing areas further from the Huallaga Valley.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This project conforms with both the Agency and Bureau strategy to support expanded economic growth and private sector assistance as part of an integrated USG and GOP effort to suppress the illicit narcotics industry. The proposed assistance will be linked to sectoral policy dialogue on agricultural pricing and parastatal marketing issues and is consistent with A.I.D. guidance on policy dialogue.

D. Project Description: Goal: Transition of Coca Areas from Narcotics Based Economy to Legitimate and Viable Economic Alternatives. Purpose: To create and expand alternative private sector income generating activities in the Huallaga Valley and other adjacent high jungle areas.

Increased effectiveness of illicit coca production/processing/marketing suppression activities is expected to create significant economic dislocations in the Huallaga Valley and adjacent areas. With decreasing narcotics related income, migration to adjacent valleys by non-sedentary coca workers and producers is expected. The sedentary population in the valley will lose coca generated income, a factor that will be compounded by the current lack of alternative income generating activities. Thus, there will be a need to quickly provide employment opportunities to offset the loss in income and employment, while also developing sustainable, licit medium and long term income and employment generating activities.

This project will support, in the Huallaga Valley and adjacent areas, the expansion of private sector income generating agricultural production, processing, and marketing activities; rural off-farm enterprise development; and increased local/community management and implementation of infrastructure. To quickly generate employment, PVOs will be encouraged to design and implement, with local participation, a series of community infrastructure projects. Among the community infrastructure activities would be reforestation activities, culvert improvements, small bridges, secondary road maintenance, construction of schools, clinics, etc. Long-term employment creation will be promoted in rural microenterprises using PVOs as a technical assistance mechanism. Women will actively participate in the selection and operation of community infrastructure activities as well as in agricultural production and processing of legal products.

Expansion of licit agricultural production (livestock, crop production, african palm oil production) will be a central activity of this project. Palm oil production expansion could involve the privatization of an existing government-owned oil production facility and the rehabilitation and transfer of oil palm production lands to the workers and other farmers. Additional production areas and processing facilities also would be financed, all to meet domestic consumption needs. Technical assistance and credit resources, both dollar and local currency, will be provided to expand agricultural production and marketing in the Huallaga Valley, privatization of the palm oil facility and related production lands.

Agricultural pricing policy and divestiture of agricultural production and marketing parastatal enterprises will be important policy issues which must be addressed if alternative licit investments are to succeed. For example, as part of the PVO employment and small business element of this project, public sector-owned storage and marketing facilities may be sold to the private sector.

#### Activities

#### Outputs

Privatization of African Palm Oil	
Extraction Facility and Lands	X
On-going Jobs Created	5,000
Families benefiting from African Palm Production	
and Oil extraction	1,000
Families benefiting from the crop expansion	15,000
Temporary Jobs Created by PVOs	20,000

A.I.D. Financed Inputs

Life of Project  
(US\$000)

Expansion of Legitimate Agricultural Production	45,000
Community and Productive Infrastructure	5,000
Expansion of Off-Farm Enterprises	<u>10,000</u>

T O T A L

60,000

E. Planned Implementation Arrangements: Project activities involving small enterprises and employment generation would be implemented by PVO's. Credit lines would be channeled through the banks with branches in the area, with USAID stipulating conditions for allocation of these resources. The GOP should establish an entity to coordinate alternative economic development activities in the Huallaga Valley, which would be responsible for the palm oil development activity.

F. Sustainability of Proposed Activities: Support to alternative economic development will be directed to private sector entities and local community organizations which will increase the sustainability of expanded legal economic activities and community infrastructure. Marketing assistance will be a critical element to sustain productive private sector activities, while proposed community infrastructure actions will be evaluated by the contributions of the community and mechanisms to cover operating costs.

G. Mission Management Role: The project will be managed by the Mission's Office of Private Sector and Trade.

H. Potential Issues and/or Innovative Program Approaches:

- Will PVOs be interested in carrying out proposed project activities in the UHV and other adjacent areas?

- Mechanisms for financing and organizing the privatization of the oil palm facility will need to be explored, i.e., cooperative or a separate, private company(ies).

- Expanded alternative investments throughout the Huallaga Valley will depend on improved access to the Valley on a rehabilitated Carretera Marginal and improved security in the Valley.

NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the evolution of stable, democratic societies; Encourage pluralism, tolerance of opposing views and support for democratic values on the part of nongovernmental bodies, including the press, community organizations, labor unions and business associations.

PROJECT TITLE: Narcotics Education and Community Initiatives

PROJECT NUMBER: 527-0347

FUNDING: (\$000) FY 92: \$2,000  
LOP: \$8,500

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: This project supports the component of the Mission's counternarcotics strategy to strengthen democratic institutions which will help address the narcotics problem. Support will continue to build Peruvian public awareness of the drug problem while forming a national consensus on policies and programs to address drug abuse, production and trafficking. The project will specifically address the adverse impact of increased availability of coca paste and cocaine and the need to support Peruvian/U.S. programs to halt the production and supply of drugs.

B. Relationship to A.I.D. and Other Donor Activities: The project will be an integral part of the GOP's integrated plan of development for coca growing areas under President Fujimori's new doctrine to halt narcotics production and trafficking in addition to supporting programs of other U.S. agencies and the Andean counternarcotics strategy of the U.S. Government. Because of the lack of professional expertise in the GOP public sector -- including ministries, state owned firms and educational institutions -- greater use of private organizations will be developed to train public sector staffs and help develop their prevention strategies. The proposed project will complement programs of the United Nations Program for Control of Drugs (UNIDCP); and assorted Swedish, Italian, French, German, European Economic Community and private sector agencies working in drug prevention, rehabilitation and crop substitution efforts.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project is the second phase of an existing USAID activity. It will comply with Agency counternarcotics policy; complement and support counternarcotics programs of other U.S. agencies; and assist with establishing a regional network of drug prevention and public awareness organizations. It contributes directly to the LAC Bureau objective of supporting the evolution of stable, democratic institutions and of responding to needs for international cooperation in addressing specific development challenges of U.S. foreign policy interest.

D. Project Description: This five year project will take the existing Narcotics Education and Public Awareness Project (527-0288) into a second phase by providing a broader scope of research and educational activities along with small innovative community prevention programs. The goal will be increased narcotics public awareness and support programs. The project purpose will be (i) develop community education in problems related to the production, trafficking and abuse of illicit drugs; and (ii) increase public support for programs addressing the social, political, economic and health consequences of drug activities in Peru and the Andean Region.

A private non-profit Center for Information and Education on the Prevention of Drug Abuse (CEDRO) has been created and successfully operated by a diverse group of concerned Peruvian citizens. CEDRO has developed the capacity to: survey national level public opinion; analyze survey results; design educational programs to meet specific community needs or information about drugs; and establish both local and national drug prevention strategies.

The new project will support an expansion of CEDRO's focus from principally community drug prevention to the presentation of facts that heighten public awareness of the problems of drug production and use in Peru. CEDRO will work with both existing and newly formed organizations to train their staffs, outline topics for research, and identify high risk communities being impacted by over-supply of coca base (PBC) in coca producing areas. As in the existing project numerous women's organizations will participate in drug participation activities.

This will require: (1) an expanded socio-economic research capability to document the consequences to Peru of coca cultivation; (2) the development of community intervention strategies in areas of high or increasing drug use; (3) the formation of a national consensus on drug related policies; (4) mobilization of a trained cadre of informed policy makers and community leaders who are willing to address popular concerns about drugs and help develop necessary legislation; and (5) funding a diverse base of community groups working on innovative pilot activities in the drug field. Regional networking with other Andean countries involved in the counternarcotics efforts also will be supported.

A.I.D. Financed Input

Life of Project  
(US\$000)

Research and Publications	1,150
Information and Education	2,170
Technical Assistance and Training	2,330
Administration and Conferences	1,350
Community Prevention Activities	1,500
 T O T A L	 8,500

E. Planned Implementation Arrangements: CEDRO, the Peruvian private non-profit organization, will continue to implement the majority of project activities in collaboration with the Ministry of Education, Ministry of Health and private sector organizations. CEDRO will both directly implement and provide oversight responsibility for the implementation of small sub-grants with various community level action groups.

F. Sustainability of Proposal Activities: The Mission is concerned about CEDRO's ability to achieve self-sustainability in view of the greatly expanded program and its more visible role in national level policy formulation under this Project. We will explore during PP development the possibility of endowing CEDRO with local currency associated with the ESF program.

G. Mission Management Role: The Project will be managed by the Mission's Office of Private Sector and Trade.

H. Potential Issues and/or Innovative Program Approaches:

- The additional role for CEDRO may over-tax its relatively small staff.
- Peru's economic recession may preclude the involvement of additional small community organizations.
- Aggressive police operations against coca growers may cause resistance in the Peruvian population to information programs on the consequences to Peru of drug production and trafficking.



## NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth; Encourage a vigorous response by the Private Sector to a favorable policy environment.

PROJECT TITLE: Small Business and Employment Expansion

PROJECT NUMBER: 527-0350

FUNDING: (\$000) FY 92: \$4,000 (G) \$10,000 (LC)  
LOP: \$4,000 (G) \$40,000 (LC)

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: The Mission supports a rapid and sustainable private sector-led reactivation of growth that generates foreign exchange, employment and boosts productivity.

To contribute to Peru's stabilization, structural change and growth, USAID assistance will help meet the following needs: economic policy analysis and reform; short-term balance of payments support; short and medium term employment generation, including micro/small enterprise support; generation of productive alternatives in Peru's coca zones; and structural adjustment assistance for a medium to longer term shift into non-traditional export, agro-industry and small/medium business enterprise as engines for growth and development. This project, by supporting small business and employment expansion, is consistent with the employment generation objective of the strategy.

B. Relationship to A.I.D. and Other Donor Activities: This project will be implemented utilizing certain findings of the Policy Analysis, Planning and Implementation Project and ILD activities, particularly with regard to economic stabilization policies and administrative simplification. The Investment and Export Promotion and Clasp II projects, will benefit this project by giving support to small enterprises producing exports and granting scholarships to outstanding small entrepreneurs. Project activities will also serve as a catalyst for other bilateral and IFI donors to channel support to small enterprise development.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project is an integral part of USAID efforts to assist Peru to develop a stable national economy, including licit sources of employment for its people in both the short and medium/longer term. Micro and small enterprise development is also a promising alternative to the current narcotics-based economy. The project responds to both the counter narcotics and economic growth elements of President Bush's Drug Strategy announced in September 1989.

D. Project Description: Goal: Generate employment and promote sustained economic growth throughout the productive sectors of the economy.

Purpose: To assist those small businesses with the greatest potential for expansion and employment creation, with financing for investment and assistance in training, organization and development of business opportunities.

This project will establish an urban-based small business development program. According to the World Bank, much of the job creation in Peru is attributable to small and microenterprises that are part of Peru's informal sector. Two Mission supported studies show there are dynamic small business industries which have demonstrated growth despite the recession, such as shoe and apparel manufacture and metalworks. In urban areas they provide products for the poor population. While dynamic small business and microenterprises are hampered by a lack of access to credit for expansion, lack of knowledge of business opportunities, and lack of management and worker skills.

In general terms, expected achievements will be: accelerated growth of the target sector; growth of employment (estimated at 40,000 jobs the first five years, but 75,000 after 10 years); increased flow of credit to the target sector; better, up-to-date machinery; improved linkages with other small and micro enterprises, larger firms, and with the external sector; entry of new productive units; overall good performance indicated by capital and labor productivity ratios and other appropriate measures; improved institutional and legal environment for small and microenterprises; and a proven, successful model which will be a catalyst for assistance from other donors to the small business sector. Although the basis of the selection criteria to provide benefits from the project is related to the "success" of the small enterprises, special care will be given to the inclusion of women entrepreneurs and workers in the number of beneficiaries participating in training and TA activities. These objectives will be developed in more detail during the PP design.

Achievements will be accomplished under five major components in the following areas: a) financial/investment, b) training, c) technological advisory service, d) business opportunities program, and e) policy analysis and advocacy.

<u>Activities</u>	<u>Outputs</u>
- Training and technical assistance provided to small business organizations, trade associations and small business	4,000 to 5,000 small entrepreneurs and workers will receive TA or training.
- Design and implement an appropriate lending mechanism for small enterprises	Lending mechanism established
- Credit provided to small business	\$40,000,000 in five years
- Small enterprise jobs created and strengthened.	40,000 jobs

A.I.D. Financed InputsLife of Project  
(US\$000)

Training	1,500
Technical Assistance	1,000
Equipment, Materials	500
Administrative Costs	<u>1,000</u>
Total Grant	4,000

E. Planned Implementation Arrangements: This project will utilize a U.S. PVO or consulting firm with experience in small enterprise development, working with Peruvian financial and small business institutions. This entity will be contracted to implement the project, possibly working through local national PVOs, providing technical assistance to small business organizations, trade associations, and small enterprises. Credit funds will be channeled through the commercial banking system, public or private "financieras", and other appropriate intermediate financial institutions.

Funds will be obligated either through a cooperative agreement with a U.S. PVO, a Peruvian small business institution, or directly through a contract with a U.S. PVO or private firm. Either way, a U.S. PVO or firm will be involved in implementing the project. The balance of project costs of \$40.0 Million, for credit will be funded by local currency generated from ESF balance of payments support.

F. Sustainability of Proposed Activities: After completion of the project, several activities developed during implementation will continue to operate such as: a) training programs for entrepreneurs conducted by local PVOs or local "for profit" organizations; and b) provision of shop-centralized rental services of machinery for finishing products manufactured by small and micro enterprises. The interest in working with successful small enterprises from banks and other financing institutions should also continue after the project is terminated. The \$40,000,000 credit fund will continue rotating.

E. Mission Management Role: The management of this project will be under the responsibility of the Mission's Office of Private Sector and Trade.

F. Potential Issues and/or Innovative Program Approaches:

- Does the project begin with a too narrow target group?
- What is the best implementing mechanism given the complicated institutional factors in Peru?
- How will efforts undertaken during the project, continue after the projects ends - even at a reduced level?
- How will the project leverage assistance by other donors?
- Does the project focus too much on winners, i.e. the "dynamic" subsector?

NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based sustainable economic growth; Promote investment, productive employment and export-led economic diversification.

PROJECT TITLE: Policy Analysis for Private Agriculture Development

PROJECT NUMBER: 527-0357

FUNDING: (\$000) FY 92: \$ 1,000  
LOP: \$ 5,000

TYPE OF FUNDING: ARDN

A. Consistency of Project with Mission Strategy: The Mission's strategy supports reactivating the private productive sectors and addresses the continuing need for ongoing policy analysis and reform. Policy expertise will be directed at several fundamental institutional constraints: land tenure, non-traditional exports, market barriers, credit and other impediments to the exercise of free market forces in the agriculture sector.

B. Relationship to A.I.D. and Other Donor Activities: The project will form a direct link with the institutional achievements of the Agriculture Planning and Institutional Development (APID) Project, due to terminate in 1991. The project will expand and institutionalize the capabilities within the Ministry of Agriculture to develop needed statistics and other vital information.

This project will complement other activities initiated under the APID project with the development of an inter-regional information system, capitalizing on computer skills and facilities fostered earlier by APID.

The Mission's Policy Analysis, Planning and Implementation (PAPI) Project is providing data and studies in support of the GOP's economic policy making function. This project will complement PAPI by focusing on the agricultural sector and by institutionalizing the capacity for on-going policy analysis at the sectoral level. In the past, the analytical basis for decision-making has been largely financed externally. The government now appears ready to revise the salary schedule to recruit and retain highly skilled professionals to carry out this sectoral policy analysis function.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This project supports GOP priorities and the LAC Bureau objective of encouraging broadly-based and sustained economic growth including the development of agriculture sector policies which effectively address impediments to growth.

D. Project Description: Goal: The goal of the project is to develop an institutionalized capability within the Ministry of Agriculture to generate, evaluate and assess rapidly and accurately, regional agriculture and natural resource information. Purpose: The project purpose is to promote an increase in production and marketing from the agriculture sector by creating a positive policy environment in coordination with and supportive of producers.

The project will encourage the GOP to recognize the need for a sustainable institutionalized capability within the Ministry of Agriculture which will require developing adequate salary levels to support capable technical and administrative experts.

Major development problems which this project will address include improvement in the standard of living of those populations which now rely principally on agriculture for a livelihood. Through the development of the productive potential within the sector and resulting income generation, improved health and education will occur. Job and income generation in agriculture related industries will alleviate part of current underemployment. The stimulation of major investment within the country's agriculture sector will help reverse a stagnant economy once a sound policy framework with regard to land use, pricing, credit, marketing, local and export markets is realized.

Major project activities will include analysis and reorganization of the current policy support group within the Ministry of Agriculture, development of a strategy agenda, assessment of the critical information needs which the Ministry of Agriculture requires in order to justify and support needed policy changes and creation of an inter-regional informational network which will focus on developing this information on a timely basis. This network will utilize the PADI-established computer network now functioning within the Ministry of Agriculture. Assessment of the demands and targets for this information and methods of dissemination will constitute a major initial focus of the project. Policy analyses, and studies will place special emphasis on needs of women and data will be disaggregated and analyzed by sender. Additional computer hardware, training, and coordination for and between the regional governments will also be supported. The GOP will be obliged to recognize the need for greatly improved salary levels to maintain quality individuals within their service. USAID will develop a sliding scale, cost-sharing mechanism to support these experts early on in the project. The GOP will be strictly bound to mutually agreed upon bench marks for assuming the ultimate salary support for their experts before the project PACD.

A.I.D. Financed Input

Life of Project  
(US\$000)

Training	500
Technical Assistance	1,500
Equipment, materials	1,500
Administrative costs	<u>1,500</u>
T O T A L	5,000

D. Planned Implementation Arrangements: The Ministry of Agriculture, primarily through the Office of the Vice Minister, will implement the project. Contracting for administrative and logistical services will be competed and contracted to a firm that is capable of providing needed support. It is anticipated that outside consultants will be used only on a short-term basis. No long-term consultants are envisioned.

F. Sustainability of Proposed Activities: A commitment by the GOP's Ministry of Agriculture will be essential to continue this activity once USAID's financial support has terminated. Success in changing salary policies within the Ministry will play a key role in the success of project efforts and continuity after the project terminates.

G. Mission Management Role: This project will be managed by the Mission's Office of Agriculture and Natural Resources.

H. Potential Issues and/or Innovative Program Approaches: There are two major innovative approaches which this project will address: 1) the project initial and continued funding will be contingent upon the GOP's compliance with making major modifications to its salary structure. The acceptance of this change will be monitored by pre-established benchmarks which will allow for tracking throughout the project period. USAID's responsibility for salary support will decrease as the Ministry picks up these costs; 2) the project will attempt to coordinate a major information network recently set up within the newly established regions. This project will test and support the central Ministry's ability to collect and analyze this information.

NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the evolution of stable democratic societies; Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens and investors.

PROJECT TITLE: Judicial Reform

PROJECT NUMBER: 527-0352

FUNDING: (\$000) FY 1992: \$1,000  
LOP: \$5,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: One major objective of the Mission's development strategy is to promote strong democratic institutions which are transparent, accountable and responsible to the constituencies they serve. Efforts to support the judicial system are priorities to gain credibility and provide countervailing power to an overbearing and ubiquitous executive branch.

B. Relationship to A.I.D. and other Donor Activities: This Project will continue efforts supported by the Administration of Justice Project, which will terminate in FY 92. Project activities will enhance A.I.D.'s counternarcotics strategy by ensuring an appropriate prosecution system. The GOP is receiving limited assistance from the UNDP and other donors for improving the judicial system and for human rights. This project will further reinforce Andean-U.S. collaboration on effective prosecution of narcotics-related crimes and help Peru fulfill its international commitment under the Vienna Drug Convention to initiate more effective enforcement action.

C. Relationship of Project to Overall A.I.D. Policy Objectives: Support to democracy, improved administration of justice and narcotics suppression are three important Agency and USG objectives.

D. Project Description: The project goal will be to strengthen the Peruvian judicial system. The project purpose is to support GOP actions to improve the performance of this sector in protecting and enforcing democratic rights and responsibilities on an equal basis for all segments of the Peruvian society.

The Peruvian justice system is subject to intense pressures generated by a burgeoning metropolitan population, terrorism, the corrupting influence of narcotics trafficking, and the explosive growth in common crime. It has not adequately responded to public demands because of low allocations of human and material resources. The system is antiquated, inaccessible, distrusted and misunderstood by the public, and lacking in the modernization and planning mechanisms for improvement. Its inability to deal efficiently and expeditiously in both civil and criminal matters poses an increasing threat to the preservation of a functioning democratic system in Peru.

The project will continue to support the Judiciary, the Prosecutor's Office and the Ministry of Justice in the areas of (a) Criminal Judicial Process; (b) Court Organization and Administration; and (c) Judicial Information Management Systems. Women will be special targets through the alternate dispute resolution program which will allow low income population to resolve minor disputes. New activities will focus on improving and modernizing options for counteracting narcotrafficking and terrorism. Examples of new legal concepts in this area include: (a) an operational asset seizure and forfeiture law; (b) an accusatorial, prosecutor-led system of criminal investigation; (c) an effective conspiracy law; (d) plea bargaining; and (d) modern evidentiary laws, which validate greater use of circumstantial evidence and electronic surveillance. The role of the judge in out of court settlement also will be addressed. The majority of cases initiated in the United States are resolved prior to reaching a formal judgment. Pre-trial settlements will be encouraged to reduce the formalism and slowness of Peruvian judicial forums. Finally, the new project will support anti-corruption efforts in the courts by establishing institutional checks and balances and defining the role of the judge in maintaining the integrity of the courts.

<u>Activities</u>	<u>Outputs</u>
-Training of Prosecutors	200
-Training of Judges	200
-Unified Mechanized Court Management System operating in Lima	X
-Unified Court Management System operating around the country	15
-All laws identified, organized and codified	X
-Information System operating in the Judicial branch	X
-Legal Information Offices operating around the country	15
-Legal aid Offices established and operating	50
-Pre-trial release program operating	X
-Legislation on pre-trial settlement passed	X
-Improved arbitration procedures established	X
-New narcotics-related jurisprudence developed	X
-Specialized terrorism and narcotics tribunals created	8
-Special human rights investigative units created	4
<u>A.I.D. Financed Inputs</u>	<u>Life of Project</u> (US\$000)
Technical Assistance	2,000
Training	1,000
Equipment, Materials	1,250
Administrative Costs	<u>750</u>
T O T A L	5,000



E. Planned Implementation Arrangements: The project will be implemented by the following three GOP agencies: The Judiciary (Court Administration), Prosecutor's Office (Public Ministry) and the Ministry of Justice. For the planning and integration of reforms, as well as for overall management, resources will be channelled through a public/private organization, the Judicial Reform Institute, that is being set up to build a national consensus on needed judicial changes.

F. Sustainability of Proposed Activities: Most of the proposed project activities are directed to establish improved procedures and to obtain policy and legislation changes that will ensure the sustainability of the reforms.

G. Mission Management Role: This project will be managed by the Mission's Office of Health and Democratic Development. One project funded USPSC will provide advisory/coordination services.

H. Potential Issues and/or Innovative Program Approaches: Possible issues to be resolved at the time of project design include the GOP's commitment to adopt a unified court management system and develop special legislation for prosecution of narcotics trafficking and terrorism crimes. The composition and functions of the proposed Judicial Reform Institute also need to be defined.

NEW PROJECT DESCRIPTION FOR FY 92

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support achievement of broadly-based, sustainable economic growth; Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

PROJECT TITLE: PVO Program Support

PROJECT NUMBER: 527-0353

FUNDING: (\$000) FY 1992: \$ 700  
LOF: \$8,000

TYPE OF FUNDING: ARDN

A. Consistency of Project with Mission Strategy: The Mission strategy promotes improved health status through quality primary health care. PVO activities to alleviate malnutrition and reduce child/infant mortality, and to improve the economy of the poor through productive employment and income generation is critical to achieving this strategy. The program provides supplementary food, health, nutrition and child survival services to, and focuses development efforts on, the most economically, socially disadvantaged.

B. Relationship to A.I.D. and Other Donor Activities: USAID is the largest food-aid donor in Peru. The GOP has recognized the role of PVOs to provide supplementary feeding and development-oriented employment and income generation opportunity to low-income families; in this project, it will supply the local currency equivalent of \$250,000 annually from its own resources to the PVO programs. The World Food Program, European Economic Community, Canadians, Germans, French, Dutch and Italians will continue to furnish food and other project support through both the public and private sectors.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This project conforms with both the Agency and Bureau policies to protect the health and lives of children, to combat malnutrition and relieve hunger, and to promote employment for those vulnerable populations at greatest risk during economic crises and restructuring.

D. Project Description: This five-year project will provide the foreign exchange resources needed to assist cooperating PVOs to improve the planning, implementation, management and evaluation of their programs, in areas such as supplementary feeding, health and nutrition, and employment, agricultural production and income generation. The project will provide a flexible vehicle for channeling resources and realigning funding with delivery requirements. The project will develop and implement guidelines for uniform data collection and processing. For the Title II PVO activities, the project will also provide guidance on recipient selection, ration composition, and integration of food programs with other Mission activities (e.g., family planning, health, and narcotics awareness).

The PVO regular Title II programs alone will distribute 60,000 metric tons, annually, over the project period. Through FY 94, emergency Title II aid of a similar volume will be needed to maintain expanded programs which will help to cushion the negative impact of the GOP economic stabilization/structural adjustment program. To manage programs of this and similar magnitude, PVOs will require both U.S. and local currency funding. This grant will fund dollar costs directly

related to implementation (e.g., expatriate staff salaries, vehicles, imported project materials/equipment, and overhead); in addition, approximately 100,000 MT of Title II commodities would be monetized annually to finance other PVO costs.

Existing programs include components specifically directed to organized women's groups. All future project activities supported under this grant will be required to show the allocation of resources for use by and in benefit of women beneficiaries. Current programs are projected to reach 3.0 million beneficiaries in FY 1992, and 2-3 million annually during the FY 1993-1996 period.

A.I.D. Financed Inputs

Life of Project  
(US\$000)

Financing/Technical Assistance Grantee	2,000
Food PVO Subgrants	5,000
Program Support/Monitoring Unit	<u>1,000</u>
T O T A L	8,000

In addition to the grant funds, from FY 1992 to FY 1995, \$200 million will be provided in Title II commodities for distribution, with another \$50 million in local currency to be generated by a Title II Monetization Program.

E. Planned Implementation Arrangements: This project will be implemented through a cooperative agreement with a competitively selected grantee. PVOs, including CARITAS, PRISMA, ADRA/OFASA, and CARE, in collaboration with public sector agencies which include the Ministries of Health and Agriculture and the Regional Governments, will carry out project activities.

F. Sustainability of Proposed Activities: This project will strengthen the management, personnel, administrative and technical capacity of participating PVOs. These investments in human resources and management systems will continue to be available after the project's completion. Also, over the grant period, the participating PVOs will need to formalize their commitment to cover the administrative costs that the service institution requires.

G. Mission Management Role: The Food for Development Division in the Mission's Office of Agriculture and Natural Resources will manage the project. A project-funded Program Support and Monitoring Unit will provide monitoring, supervision, and evaluation of project activities.

H. Potential Issues and/or Innovative Program Approaches: The design team will need to explore how PVOs can contribute higher levels of their own resources to the project budget. The selection or development of a mechanism/entity which would channel funds to PVOs, account for monetization proceeds, and provide specialized technical assistance in program sustainability, will need to be determined. During the design phase two alternative implementation schemes will be explored: 1) the development of a PVO consortium with a centralized administrative unit mandated to provide specific services for the PVO members; and 2) the selection of an existing institution, perhaps a PVO, to provide the services required under this project grant. Implementation of program activities may be limited or delayed in certain regions due to access, and/or security considerations. On an annual basis, the potential disincentive effects on crop production and dependency on donated food must be reviewed. Finally, the duration of economic recovery may well affect the final volume of food aid and other resource requirements of the program.

NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based sustainable economic growth; Promote investment, productive employment and export-led economic diversification.

PROJECT TITLE: Agricultural Technology Dissemination

PROJECT NUMBER: 527-0358

FUNDING: (\$000) FY 93: \$ 1,457  
LOP: \$20,000

TYPE OF FUNDING: ARDN

A. Consistency of Project with Mission Strategy: The Mission's strategy is to support rapid and sustainable private sector led growth which generates foreign exchange and employment and boosts productivity, including commercial agriculture. This project will attempt to increase production yields and foster a demand-driven agricultural technology generation system in which the private sector plays a key role.

B. Relationship to A.I.D. and Other Donor Activities: The Mission's Agriculture Technology Transformation Project (ATT) has been actively engaged in agricultural research, private/public sector institutional development, participant training, and technology transfer. This project will support new efforts with greater emphasis on extension, dissemination and utilization of technologies generated.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project supports LAC and Agency objective of encouraging adoption of economic and sectoral policies which address impediments to broad based growth. This project will reactivate productive sectors by increasing farmer productivity.

D. Project Description: This project goal will be to develop a private sector institutional capacity to disseminate new technology that is available or being generated. The project purpose is to strengthen the capacity of local farmer groups, cooperatives and growers associations to gain access to production technology and make it available to their members. At one level we anticipate supporting private seed producers and farm supply organizations with the capacity to reach out to their consumers with better information to increase per hectare yields. At a second level we will develop the capacity of local producer organizations to finance extension personnel that are responsive to the community's needs.

These personnel will interface with technology generators, helping orient their work to on farm needs. They will also work with farm supply establishments to ensure the availability of resources for members of their organization. We anticipate that local organizations will finance the cost of extension agents responsible to them. These activities will provide farmers, farmer groups, and growers associations with information to lead to the conservation of arable soils, reclamation of marginal lands, optimal use of irrigation water, use of improved seeds and the sound application of chemical inputs. They will have the overall effect of increasing production and of creating a demand driven technology transfer capability within the country. By increasing yields, introducing more varied crops, and increasing the land base, the agricultural/natural resource sector will contribute significantly to the stabilizing of Peru's fragile economy.

42

NEW PROJECT DESCRIPTION FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the evolution of stable democratic societies; Encourage strengthening of competent civilian institutions.

PROJECT TITLE: Democratic Initiatives

PROJECT NUMBER: 527-0356

FUNDING: (\$000) FY93: \$ 3,000  
LOP: \$10,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: The Mission's strategy to promote strong democratic institutions that reinforce economic freedom includes two basic elements: a) strengthening the judicial system; and b) securing wider public participation in selected political institutions and practices to ensure their openness and transparency, public accountability and responsiveness. This project will address the second element of this strategic objective.

B. Relationship to A.I.D. and Other Donor Activities: The project will complement activities supported by the new Judicial Reform Project, which will continue efforts to strengthen Peru's Judicial System. This project will also incorporate and expand the efforts developed by the Institute for Liberty and Democracy (ILD) in administrative simplification, property rights, democratic rule making and anticorruption. Beyond interest in the issue of human rights by other donors, A.I.D. is currently the only donor helping strengthen Peru's democratic institutions.

C. Relationship of Project to Overall A.I.D. Policy Objectives: A.I.D.'s highest priority is to maintain and strengthen Peru's commitment and efforts to attain economic stability with sustained growth. The project will promote strong democratic institutions which constitute the necessary foundation for economic growth.

D. Project Description: The project goal will be to strengthen democratic institutions that reinforce economic freedom. The project purpose is to support the development of democracy in Peru by promoting popular participation in political and economic activities and ensuring responsiveness of public institutions to society.

The project is directed to re-orient many activities carried out by the Peruvian State which affect the country's nascent democratic tradition and stifle economic freedom, creativity and legitimate entrepreneurial activities. It will include a complex but inter-related series of interventions in the areas of increased popular participation, executive branch rule making, improved legislative understanding of critical issues, increased controls and attention to the integrity and accountability of government functions, and improved civic education. Anticipated activities include the expansion of the administrative simplification and property rights programs, establishment of a democratic rule making process at national and regional levels, creation of an information center for the legislature, creation of an anti-corruption function, the development of stronger pluralistic community organizations, and depending upon their financial viability, possible assistance to regional governments.

## NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based sustainable economic growth; Promote investment, productive employment and export-led economic diversification.

PROJECT TITLE: Agricultural Credit and Rural Savings Mobilization

PROJECT NUMBER: 527-0359

FUNDING: (\$000) FY 93: \$1,365  
LOP: \$10,000

TYPE OF FUNDING: ARDN

A. Consistency of Project with Mission Strategy: The Mission's strategy is to support rapid and sustainable private sector led growth which generates foreign exchange and employment and boosts productivity including commercial agriculture. The project fosters the development of an agricultural credit system based on rural savings which will mobilize resources for local investment.

B. Relationship to A.I.D. and Other Donor Activities: USAID's Agriculture Technology Transformation Project (ATT) and the Agriculture Planning and Institutional Development Project (APID) have established a base which has served to increase and strengthen agriculture technology and encourage change in GOP policies; and along with a general improvement in economic conditions will create favorable conditions which encourage the producer to invest more borrowed capital in order to produce better marketable crops.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This project addresses the Agency's and LAC strategy objective to support a rapid, sustainable, private sector-led economic reactivation that generates foreign exchange, employment, and boosts productivity.

D. Project Description: Goal: The goal of the project is to develop a better agricultural credit system which provides resources at positive real rates of interest and is capable of handling savings and credit transactions to the small commercial producer. Purpose: The purpose of the project is to develop a reliable banking system which will address the producers' borrowing needs in a timely fashion, will provide a sound savings investment outlet by mobilizing community savings, and will foster accelerated growth and development of farming areas.

The GOP is in the process of establishing an agricultural foundation which may replace the Agrarian Bank. Once government plans are clearer, the precise project strategy will be defined. However, activities will focus on identifying important producing areas, such as principal valleys, which are organized and have identified a need for a reliable savings and credit institution. The project will support cooperatives, farmer organizations, or PVO organized savings and credit institutions which will both mobilize savings of their members and channel credit under commercial banking practices to their members. These, over time and within the project framework, can be linked organizationally to function as a major banking institution. Creation of the initial banking entities will involve using project seed money to provide technical, financial, and banking training and expertise to develop an institution responsive to small farmers.

## NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support achievement of broadly-based, sustainable economic growth; Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

PROJECT TITLE: Non-Project Assistance/Health Policy Reform

PROJECT NUMBER: 527-0360

FUNDING: (\$000) FY93: \$7,000 (5,000, HE; 2,000, CS)  
LOP: \$30,000 (20,000, HE; 10,000, CS)

TYPE OF FUNDING: Health, Child Survival, PL-480 Title III (LC)

A. Consistency of Project with Mission Strategy: The Mission strategy promotes improved health status through access to quality primary health care. To fulfill this objective, USAID will encourage the Ministry of Health (MOH) through this project to increase support for preventive services, decrease percentage of budget support for urban-based curative care, and improve personnel management of the MOH program.

B. Relationship to A.I.D. and Other Donor Activities: USAID is one of the largest donors in the health sector. PAHO, UNICEF, Rotary International, UNFPA, and bilateral donors from the EEC provide varying levels of support, largely to public sector institutions in primary health care. Virtually no assistance has been provided to date in the development of effective, self-financing and cost recovery strategies for the MOH.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The proposed project conforms with Agency and LAC Bureau policies assuring accelerated participation of the poor in the growth process by both protecting low income sectors during transitory economic displacement and improving health status, which is required if economic growth is to be sustained.

D. Project Description: The goal of this project is to induce policy reform and institutional change in funding priorities within the Peruvian public health sector. Our purpose is to achieve a higher proportion of scarce resources committed to preventive health programs that will reduce infant, child, and maternal mortality rates. This five-year project will utilize the disbursement of tranches of NPA to promote and reward effective health policy reform within the public sector, either at national or regional levels. Execution of project agreements with one or more Regional Governments would be conditioned on the demonstration of their financial and political viability. The three primary issues to be addressed by NPA support are:

(1) Emphasizing the primary mission of the public sector in the extension and sustainability of quality preventive services, functioning as a normative public health agency, which guarantees primary health care through public-private partnerships;

(2) Establishing cost recovery and sustainability mechanisms such as contracting out services or charging appropriate user fees, especially for curative care services;

(3) Meeting the basic health needs of those at high risk by strengthening preventive care services and providing new incentives to improve the efficiency of service delivery mechanisms including personnel performance and satisfaction.

Intermediate objectives will be designed to stimulate and encourage the implementation of alternative models of health systems management, some of which will be developed and adapted to Peru under the technical assistance provided through the new Strengthening Health Institutions Project. These milestones will reflect the most notable constraints of the public health sector: provision of efficient preventive services, cost recovery from curative services, and setting appropriate norms. Such conditions might include target percentages of MOH budget for preventive vs. curative care, percent of curative costs recovered, and salaries vs. other expenditures.



## ANNEX B

TABLE I - MISSION WORKPLAN  
June 1991 - May 1992

I. Support the achievement of broadly-based, sustainable economic growth.

	<u>Mission Objectives</u>	<u>Mission Actions</u>
A. Promote Investment, Productive Employment, Export-led Economic Diversification.	An Overall policy framework and structural reforms that promote economic stability and sustained growth.	<ol style="list-style-type: none"><li>1. The Central Bank completes and acts on 6 A.I.D. funded economic studies related to the economic stabilization program (December 1991) ECON.</li><li>2. Establish leadership and coordinating role for Support Group activities in Peru (June 1991) ECON.</li><li>3. Negotiate and conclude balance of payments agreement with GOP (July 1991) ECON.</li><li>4. Provide the GOP with a package of technical assistance and financial resources in support of preparation of concrete plan of action for the privatization of public enterprises (September 1991) ECON.</li><li>5. Prepare analysis and recommendations for U.S. position in Paris Club negotiations (July 1991) ECON.</li><li>6. Ensure that the USG quickly processes implementing agreement in accordance with Paris Club debt rescheduling (October 1991) ECON.</li></ol>

B. Vigorous Response by the Private Sector favorable policy environment.

Reactivate private productive sectors generating employment, foreign exchange and increased productivity.

7. Undertake evaluation of GOP economic program and prepare negotiating position for FY 92 balance of payments assistance (November 1991) ECON.
  8. Negotiate conditionality and conclude balance of payments agreement with GOP (February 1992) ECON.
  9. Provide technical and financial resources for the privatization of a minimum of two public enterprises to be selected on the basis of plan of action prepared in CY 91 (April 1992) ECON.
  10. Negotiate multi year Title III program including appropriate agricultural sector policy conditions (November 1991) PDP.
  11. Secure additional Title II monetized resources to enable food assistance program to continue (November 1991) ANR).
  12. Complete draft of food assistance strategy and share with cooperating PVOs (September 1991) ANR.
- 
1. Establish the Export Sector Panel and outline export issues for analysis under the Policy Analysis, Program and Implementation project (May 1992) PST.
  2. In coordination with the Exporter's Congress, develop an action plan for increased exports (July 1991) PST.
  3. Two regional export promotion congresses held (August 1991) PST.
  4. Establish a local currency export credit line in the commercial banking system (November 1991) PST.

5. Export Strategy Seminar held by ADEX and institutional contractor for Peruvian non-traditional exporters (July 1992) PST.
6. Local currency credit line is established in the commercial banking system for small business (May 1992) PST.
7. Long and short term business training programs for the private sector completed (July 1992) PST.
8. Establish a natural resources and agriculture information network between the newly created decentralized Regional Governments (May 1992) ANR.
9. Begin dissemination of agricultural technology developed under the ATT project (June 1991) ANR.
10. Develop a private sector national seed production and distribution system (January 1992) ANR.
11. Complete the management and reorganization of the private sector agricultural foundation (FUNDEAGRO) (July 1991) ANR.
12. Complete the reorganization of the La Molina Agrarian University curriculum, management, and administrative systems (September 1991) ANR.
13. Secure increased GOP contribution to the technology dissemination function in the 1992 Ministry of Agriculture budget (October 1991) ANR.

C. Accelerate opportunities for increased participation in the economy by the historically disadvantaged.

Improved health status through access to quality primary health care.

1. Assessment of further opportunities for development of new nutrition initiatives completed (February 1992) HDD.
2. New Memorandum of Understanding negotiated with MOH and other international agencies to determine levels of support for the immunization program (December 1991) HDD.
3. Annual workplan for the Ministry of Health completed and accepted to meet all CPs (January 1992) HDD.
4. Conduct workshop for PVOs and institutions participating in strengthening Private Sector Health Project to discuss project start up issues (November 1991) HDD.
5. Begin mass media campaign for modern family planning methods (March 1992) HDD.
6. Consolidated, unified contraceptives logistics system established for public and private sectors (July 1991) HDD.
7. Demographic and Health survey conducted (April 1992) HDD.
8. Hold population meeting to discuss USAID/Strategy with GOP and S&T/POP and local implementing agencies (September 1991) HDD.
9. Support WASH workshop to develop National Water and Sanitation Plan to provide input into a LC financed project Mission will develop in response to cholera (July 1991) HDD.

## II. Support the Evolution of Stable, Democratic Societies

A. Encourage the strengthening of competent civilian institutions that will merit the confidence of political and military leaders, citizens and investors.

Encourage strong democratic institutions that reinforce economic freedom.

1. ILD completes its activities to establish anti-corruption mechanisms and parallel systems of justice (December 1991) HDD.
2. Judicial sector assessment completed to provide foundation for new Judicial Reform project (July 1991) HDD.
3. Uniform court procedures are established in the Lima court system (July 1992) HDD.
4. CLASP II training programs for socially or economically disadvantaged groups begins (January 1992) HDD.
5. A.I.D. sponsored Urban Property Registry activity begins on a self-sustaining basis (March 1992) HDD.
6. Rural Property Registry activity begins (July 1991) HDD.
7. The new Narcotics Education and activity Initiatives project begins its expanded efforts in developing public awareness promoting local anti-drug activities (September 1992) PST.
8. CEDRO begins pilot community level prevention activities (September 1992) PST.
9. Second Annual Regional Drug Demand Reduction Conference hosted by CEDRO (June 1992) PST.
10. ILD completes its campaign to generate public support for increased public influence on government decisions (March 1992) HDD.
11. Non-partisan public-private Judicial Reform Institute formally established (July 1992) HDD.

III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of stable democratic societies.

- |  |  |  |
|--|--|--|
| A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular concern such as the production, trafficking and consumption of drugs, terrorism and environmental degradation. | Replace coca-based employment and foreign exchange earnings with legal alternatives. | 1. Extend the Upper Huallaga Area Development project and channel resources through local farmer associations (June 1991) PST.<br>2. Umbrella Counternarcotics Agreement Economic Assistance Annex negotiated and signed (June 1991) PST.<br>3. PID completed to support alternative development opportunities in the Upper Huallaga Valley through the Selva Economic Revitalization project (October 1991) PST.<br>4. All design work for the Selva Economic Revitalization project is completed (January 1992) PST.<br>5. Approval obtained for the Selva-Coastal Road Rehabilitation Local Currency project to improve access to markets for legitimate crops in the Upper Huailaga Valley (October 1991) PST. |
|--|--|--|

4

ANNEX C

TABLE II

COUNTRY PERFORMANCE

LAC BUREAU PERFORMANCE RATING SUMMARY

Overall Performance Ranking (1 to 16)	11.0
Overall Performance (possible = 100)	59.6
Macroeconomic Reform Program (50)	30.4
Social Services (20)	11.7
Environmental Management (10)	5.05
Democracy/Human Rights Commitment (20)	12.5

LAC BUREAU PERFORMANCE INDICATOR DATA

School Enrollment	114.0
School Enrollment	112.0
Infant Vaccination Rate	58.0
Contraceptive Prevalence	24.0
Environmental Management	5.0
Democracy and Human Rights	7.0

## ANNEX D

TABLE III

## PROGRAM PERFORMANCE

## I. Support the Achievement of Broadly-Based Economic Growth

L A C Sub-objectives	Mission Strategic Objectives	Performance Indicators	Baseline 1990	1992	1993
Promote Investment, Employment and Export-led Diversification	An overall policy framework and structural reforms that promote economic stability and sustained growth	Decrease in the average monthly inflation rate	43.4 %	2.5 %	1.5 %
		Increase in Real Per-capita GNP Base=1989	\$1,010	\$1,080	1,110
		Increase in Real Wages (1989=100)	80	93.6	101.5
		Central Government budget surplus as % of GDP	-3.3 %	-2.0 %	-1.6 %
		% of Central Government deficit financed by the Central Bank	70 %	74 %	70 %
		Central Government domestic borrowing as a % of GDP	2.3 %	2.0 %	2.2 %
		Net International Reserve Level (equivalency in monthly imports)	3 months	4 months	5 months
		Tax revenues as a % of GDP	7.5 %	11.5 %	12.1 %

54



Vigorous response by the Private Sector to a favorable policy environment	Reactivated private sector generating employment, foreign exchange and increased productivity	Private sector investment as a % of GDP	11.8%	16.0%	19.5
		Domestic savings as a % of GDP	13.4%	18.4%	19.6%
		External savings as a % of GDP	0.7%	3.4%	3.2%
		Foreign direct investment (million US\$)	29.0	326.0	562.0
		Agricultural borrowing from the banking system as a % of GDP	2%	5%	5%
		Spread between annual borrowing and lending interest rates	380%	8%	8%
		Real interest rates:			
		lending	-6.4%	Intl.	Intl.
		borrowing	-14.3%	levels	levels
		Agricultural Sector GDP (\$ millions)	4,866	5,500	5,940
		Production of the principal agricultural crops: (MT)			
		Wheat	76.4	90.0	95.0
		Corn	487.2	555.0	610.0
		Potato	1,028.8	1,183.0	1,290.0
		Cotton	242.0	275.0	308.0
		Agricultural wholesale price Index	100.0	150.0	158.0

Accelerated Opportunities for increased participation in the economy by the historically disadvantaged	Improved health status through access to quality primary health care	Decreased infant mortality rate	81/1000	77/100	75/1000
		Increased share of MOH budget for primary health activities	10%	10%	15%
		Increased % of target population immunized	65%	72%	75%
		Increased MOH distribution of ORS packets per year	500,000	3,000,000	4,500,000
		Decrease in infant diarrhea (episodes per year per infant)	10	8	7
		Increase in % of MOH operating costs recovered from hospitals and health care centers	5%	5%	10%
		Increased access to potable water (% of population)	46%	47%	50%
		Increased access to sanitary disposal of wastes (% of population)	18%	20%	25%
		Increased modern contraceptive prevalence (% of WIF)	23%	30%	32%
		% of operating costs recovered in PVO family planning services	10%	20%	35%

Increase # of commercial FP outlets	3,500	3,850	4,500
Increase in Couple-Years-Protection	620,000	700,000	750,000
Decrease in acute child malnutrition rates	8%	7.5%	6%

## II. Support the Evolution of stable democratic societies

L A C S u b - objective	Mission Strategic Objective	Performance Indicators	Baseline 1990	1992	1993
Encourage the strengthening of competent civilian institutions that will merit the confidence of political and military leaders, citizens and investors	Encourage strong democratic institutions that reinforce economic freedom				
	<u>Sub-objectives</u>				
	Judicial Branch strengthened	# of courts using case management systems	10	50	100
		# of attorney offices using case management systems	0	60	100
		MOJ budget as a % of total Central Gov. budget	0.75%	1%	2%
		Non-partisan institution supporting judicial reform	Non-existent		Established
		Adoption rate (%) of administrative simplification programs in public sector institutions	50%	60%	70%

Increased popular participation in key public institutions to assure new accountability, transparency, and feedback	# of property titles granted	30,000	200,000	400,000
	Non-partisan institution providing analysis of legislation	Non-existent		Established
	Number of organizations involved in civic education	about 100	about 200	about 500

III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly based sustainable economic growth and the evolution of stable democratic societies.

L A C Sub-objective	Mission Strategic Objective	Performance Indicators	Baseline 1990	1992	1993
Contribute to the formulation and implementation of USG strategies for dealing with issues of special concern such as the production, trafficking and consumption of drugs, terrorism and environmental degradation	Replace coca based employment and foreign exchange earnings with legal alternatives	Decrease in foreign exchange earnings from coca/cocaine (millions US\$)	800	700	600
		Increase in foreign exchange earnings from legal exports	3,276	3,400	3,600
		Foreign exchange earnings from non-traditional exports (millions US\$)	974	1,000	1,100
		Decrease in coca farmer employment	120,000	110,000	90,000
		Increased area in production of legal marketable crops in the Huallaga Valley (Has.)	100,000	110,000	130,000

Increased new  
investment in legal  
production  
activities in the  
Huallaga Valley  
(million US\$)  
(absolute  
investment)

-0-

10

60

# of institutions  
involved in  
narcotics  
awareness and  
prevention  
activities

1,980

2,450

2,700

## ANNEX E

## TABLES IVa

FY 1990

LOCAL CURRENCY UTILIZATION  
(\$000)

USES	ESF	PL480-I	PL480-II	PL480-III	SEC 416	TOTAL
HG BUDGET GEN						
HG BUDGET SECTOR						
HG CONTRIBUTION TO AID PROJECTS		20,000				20,000
HG MANAGED L/C PROJ (GOVT OR PRIVATE)						
AID PROGRAM TRUST FUND						
AID OE TRUST FUND						
SECTION 108						
OTHER			2,671			2,671
TOTAL		20,000	2,671			22,671
CHANNEL FOR ASSISTANCE						
PUBLIC SECTOR			20,000			
20,000						
PRIVATE SECTOR			2,671			2,671
TOTAL		20,000	2,671			22,671

## ANNEX E

## TABLES IVb

FY 1991

LOCAL CURRENCY UTILIZATION  
(\$000)

USES	ESF	PL480-I	PL480-II	PL480-III	SEC 416	TOTAL
HG BUDGET GEN						
HG BUDGET SECTOR						
HG CONTRIBUTION TO AID PROJECTS	15,500			24,000		39,500
HG MANAGED L/C PROJ (GOVT OR PRIVATE)	27,200			6,000	22,000	55,200
AID PROGRAM TRUST FUND						
AID OE TRUST FUND	6,700					6,700
SECTION 108						
OTHER	600		10,000		22,000	49,600
TOTAL	50,000		10,000	30,000	22,000	151,000
CHANNEL FOR ASSISTANCE						
PUBLIC SECTOR	34,500			24,000		22,000
80,500						
PRIVATE SECTOR	15,500		10,000	6,000		
70,500						
TOTAL	50,000		10,000	30,000	22,000	151,000

## ANNEX E

## TABLES IVc

FY 1992

LOCAL CURRENCY UTILIZATION  
(\$000)

USES	ESF	PL480-I	PL480-II	PL480-III	SEC 416	TOTAL
HG BUDGET GEN						
HG BUDGET SECTOR						
HG CONTRIBUTION TO AID PROJECTS	35,000			24,000		65,500
HG MANAGED L/C PROJ (GOVT OR PRIVATE)	27,000			6,000	15,000	48,000
AID PROGRAM TRUST FUND						
AID OE TRUST FUND	7,400					7,400
SECTION 108						
OTHER	600		13,000			61,600
TOTAL	70,000		13,000	30,000	15,000	176,000
CHANNEL FOR ASSISTANCE						
PUBLIC SECTOR	35,000			24,000		15,000
74,000						
PRIVATE SECTOR	35,000		13,000	6,000		
102,000						
TOTAL	70,000		13,000	30,000	15,000	176,000



## ANNEX E

## TABLES IVd

FY 1993

LOCAL CURRENCY UTILIZATION  
(\$000)

USES	ESF	PL480-I	PL480-II	PL480-III	SEC 416	TOTAL
HG BUDGET GEN						
HG BUDGET SECTOR						
HG CONTRIBUTION TO AID PROJECTS	35,000			24,000		59,000
HG MANAGED L/C PROJ (GOVT OR PRIVATE)	27,000			6,000	15,000	48,000
AID PROGRAM TRUST FUND						
AID OE TRUST FUND	7,400					7,400
SECTION 108						
OTHER	600		15,000			65,600
TOTAL	70,000		15,000	30,000	15,000	180,000
CHANNEL FOR ASSISTANCE						
PUBLIC SECTOR	35,000			24,000		59,000
74,000						
PRIVATE SECTOR	35,000		15,000	6,000		56,000
106,000						
TOTAL	70,000		15,000	30,000	15,000	180,000

## ANNEX F

TABLE V

SUMMARY PROGRAM FUNDING TABLE  
Dollar Program by Functional Account  
(\$000)

<u>Account/Project Title and No.</u>	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
<u>Development Assistance</u>			
<u>ARDN</u>	<u>2,207</u>	<u>4,140</u>	<u>8,293</u>
Subtotal			
(Loan)	(--)	(--)	(--)
(Grant)	(2,207)		
527-0000 Program Development and Support	406	370	370
527-0282 Agricultural Technology Transformation	--	500	1,301
527-0341 Employment and Natural Resource Sustainability	1,801	1,570	--
527-0353 PVO Program Support	--	700	2,300
527-0357 Policy Analysis for Private Sector Agricultural Development	--	1,000*	1,500
527-0358 Agricultural Technology Dissemination	--	--	1,457
527-0359 Agricultural Credit and Rural Savings Mobilization	--	--	1,365*
<u>Population</u>	<u>573</u>	<u>4,000</u>	<u>2,700</u>
Subtotal			
(Loan)			
(Grant)			
527-0000 Program Development and Support	73	100	100
527-0319 Strengthening Private Sector Health Institutions	--	730	--
527-0326 Private Commercial Family Planning	500	1,900	2,600

\* Above FY 92 CP level.

624

527-0335	**	1,270	---
Private Voluntary Sector Family Planning Services Expansion			
<u>Health</u>	<u>141</u>	<u>--</u>	<u>6,150</u>
Subtotal			
(Loan)			
(Grant)			
527-0000	141	--	150
Program Development and Support			
527-0319	--	--	1,000
Strengthening Private Sector Health Institutions			
527-0360	--	--	5,000
Non-Project Assistance/Health Policy Reform			
<u>Child Survival</u>	<u>3,025</u>	<u>6,000</u>	<u>4,642</u>
Subtotal			
(Loan)	(--)		
(Grant)	(3,025)		
527-0000	--	150	--
Program Development & Support			
527-0285	--	3,850	1,567
Child Survival Action			
527-0319	3,025	2,000	1,075
Strengthening Private Sector Health Institutions			
527-0360	--	--	2,000
Non-Project Assistance/Health Policy Reform			
<u>Education</u>	<u>1,191</u>	<u>2,060</u>	<u>2,030</u>
Subtotal			
(Loan)	(--)		
(Grant)	(1,191)		
527-0000	20	--	30
Program Development and Support			
527-0272	1,171	321	--
Private Sector Management Improvement			
527-0340	--	1,739	2,000
CLASP II (Andean Peace Scholarship II)			

\*\* \$1,793,000 from OYB has been transferred to S&T POP for the procurement of contraceptives.

<u>Environment and Energy</u>	<u>221</u>	<u>2,300</u>	<u>2,050</u>
Subtotal			
(Loan)			
(Grant)	(221)		
527-0000	121	400	150
Program Development and Support			
527-0061	100	100	100
Special Projects			
598-0772	***	1,800	1,800
ILD Private Sector Institutional Reform***			
Subtotal DA			
(Loan)	(--)	(--)	(--)
(Grant)	(7,358)	(18,500)	(25,865)****
<u>Counternarcotics Initiative</u>			
<u>Economic Support Fund</u>	<u>60,000</u>	<u>100,000</u>	<u>100,000</u>
Subtotal ESF			
(Loan)	(--)	(--)	(--)
(Grant)	(60,000)	(100,000)	(100,000)
527-0000	647		
Program Development and Support			
527-0244	1,200	--	--
Upper Huallaga Area Development			
527-0288	943	--	--
Narcotics Education Initiatives			
527-0343	2,710	3,000	254
Policy Analysis, Planning & Implementation			
527-0344	50,000	70,000	70,000
Economic Stabilization and Recovery			
527-0347	--	2,000	1,500
Narcotics Education and Community Initiatives			

\*\*\* Peru SAR Review April-September 1990, State 007557, dated 1/9/90, indicated A.I.D./W's intention to convert this project from a LAC regional one to a bilateral one starting in 1991. Mission has transferred \$587,000 from its OYB to this project since conversion has not taken place in FY 1991.

\*\*\*\* Since Peru is now a performing country, FY 93 levels through 96 reflect an increment of up to the AAPL level shown in FY 92 ABS.

16

527-0348	--	10,000	19,231
Selva Economic Revitalization			
527-0349	4,500	10,000	5,015
Investment and Export Promotion			
527-0350	--	4,000	--
Small Business and Employment Expansion			
527-0352	--	1,000	1,000
Judicial Reform			
527-0356	--	--	3,000
Democratic Initiatives			
<u>P.L. 480</u>	<u>79.7</u>	<u>91.0</u>	<u>95</u>
(Loan)	(--)	(--)	(--)
(Grant)	(79.7)	(91.0)	(95.0)
<u>Section 416</u>	<u>18.1</u>	<u>15.0</u>	<u>15.0</u>
(Grant)	(18.1)	(15.0)	(15.0)
PROGRAM TOTAL	<u>165,158</u>	<u>224,500</u>	<u>235,865</u>
(Loan)	--	--	--
(Grant)	165,158	224,500	235,865

## ANNEX G

TABLE VI  
MISSION PROJECTS BY LAC AND MISSION STRATEGIC OBJECTIVES

LAC OBJECTIVE

I. Support the achievement of broadly-based, sustainable economic growth.

<u>LAC SUB-OBJECTIVE</u>	<u>MISSION STRATEGIC OBJECTIVE</u>	<u>MISSION PROJECTS/PROGRAMS</u>
A. Promote investment, productive employment and export-led economic Diversification.	1. An overall policy framework and structural reforms that promote economic stability and sustained growth.	527-0343 Policy Analysis, Planning and Implementation 527-0344 Economic Stabilization and Recovery PL 480 Title II PL 480 Title III Section 416
B. Vigorous response by the private sector to a favorable policy environment.	2. Reactivated private productive sectors generating employment, foreign exchange and increased productivity.	527-0244 Upper Huallaga Area Development (terminates FY92) 527-0272 Private Sector Mgt. Improvement (terminates FY92) 527-0298 Private Sector Policy Planning & Institutional Development (terminates FY 92) 527-0349 Investment and Export Promotion 527-0348 Selva Economic Revitalization (FY92 start) 527-0350 Small Business & Employment Expansion (FY92 start) 527-0282 Agricultural Technology Transformation (terminates FY93) 527-0341 Employment and Natural Resource Sustainability 527-0357 Policy Analysis for Private Agriculture Development (FY92 start) 527-0358 Agricultural Technology Dissemination (FY93 start) 527-0359 Agricultural Credit & Rural Savings Mobilization(FY93 start)

<u>LAC SUB-OBJECTIVE</u>	<u>MISSION STRATEGIC OBJECTIVE</u>	<u>MISSION PROJECTS/PROGRAMS</u>
C. Accelerated opportunities for increased participation in the economy by the historically disadvantaged	3. Improved health status through access to quality primary health care.	527-0326 Private Commercial Family Planning 527-0335 Private Voluntary Sector Family Planning Services Expansion 527-0285 Child Survival Action (terminates FY93) 527-0319 Strengthening Private Sector Health Institutions 527-0353 PVO Program Support (FY92 Start) 527-0360 Health Policy Reform (FY93 Start)

## II. Support the Evolution of Stable, Democratic Societies

A. Encourage the strengthening of competent civilian institutions that will merit the confidence of political and military leaders, citizens and investors	4. Encourage strong democratic institutions that reinforce economic freedom through:	
	a. Judicial Reform Strengthened	527-0303 Administration of Justice 527-0352 Judicial Reform (FY 92 start)
	b. Increased Popular Participation in key public institutions to assure their accountability, transparency and feedback.	527-0347 Narcotics Education & Community Initiatives (FY92 start) 598-0772 ILD Private Sector Institutional Reform 527-0356 Democratic Initiatives (FY93 start) 527-0340 CLASP II (FY 92 start) 527-0061 Special Projects

LAC SUB-OBJECTIVE

MISSION STRATEGIC OBJECTIVE

MISSION PROJECTS/PROGRAMS

III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of stable democratic societies.

A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular concern such as the production, trafficking and consumption of drugs, terrorism and environmental degradation.

5. Replace coca-based employment and foreign exchange earnings with legal alternatives.

A. Policy Framework

\*527-0343 Policy Analysis, Planning and Implementation

\*527-0344 Economic Stabilization and Recovery

\*Title III

\*Title II

\*Section 416

B. Private Productive Sectors

\*527-0244 Upper Huallaga Area Development (terminates FY92)

\*527-0349 Investment and Export Promotion

\*527-0348 Selva Economic Revitalization (FY 92 Start)

\*527-0350 Small Business and Employment Expansion (FY92 Start)

C. Democratic Institutions

\*527-0347 Narcotics Education and Community Initiatives (FY 92 Start)

\*527-0352 Judicial Reform (FY 92 Start)

\*527-0356 Democratic Initiatives (FY 93 Start)

\*598-0772 ILD Private Sector Institutional Reform

\* These projects and activities support the Mission's Counternarcotics objective, in addition to other strategic objectives.



## ANNEX H

Table VII  
 USAID/PERU MORTGAGE ANALYSIS SUMMARY  
 \$ 000

<u>Functional by Fiscal</u>	<u>LOP Amount</u>	<u>Cumulative Obligations</u>	<u>Mortgage At End of Fiscal Year</u>
<u>AGRICULTURE, RURAL DEVELOPMENT, AND NUTRITION</u>			
FY 1990	25,000	23,199	1,801
FY 1991	28,600	25,729	2,871
FY 1992	41,600	30,300	11,300
FY 1993	71,600	36,922	34,678
<u>POPULATION</u>			
FY 1990	9,815	6,753	3,062
FY 1991	14,815	9,046	5,769
FY 1992	17,815	12,945	4,870
FY 1993	17,815	15,545	2,270
<u>HEALTH</u>			
FY 1990	1,985	1,985	0
FY 1991	1,985	1,985	0
FY 1992	1,985	1,985	0
FY 1993	2,985	2,985	0
<u>CHILD SURVIVAL</u>			
FY 1990	15,804	10,387	5,417
FY 1991	24,804	13,412	11,392
FY 1992	24,804	19,262	5,542
FY 1993	24,804	21,904	2,900
<u>EDUCATION</u>			
FY 1990	9,317	7,825	1,492
FY 1991	9,317	8,996	321
FY 1992	16,117	11,056	5,061
FY 1993	16,117	13,056	3,061

ENVIRONMENT AND ENERGY

FY 1990	11,288	4,088	7,200
FY 1991	11,288	6,475	4,813
FY 1992	11,288	8,275	3,013
FY 1993	11,288	10,075	1,213

COUNTERNARCOTICS INITIATIVE ECONOMIC  
SUPPORT FUND

FY 1990	19,693	11,586	8,107
FY 1991	441,525	73,256	368,269
FY 1992	515,939	171,193	344,746
FY 1993	548,789	263,789	285,000

USAID/PERU MORTGAGE ANALYSIS  
\$ 000

<u>Account/ Project No</u>	<u>LOP Amount</u>	<u>Cumulative Obligations</u>	<u>Mortgage At End of Fiscal Year</u>
--------------------------------	-----------------------	-----------------------------------	---

AGRICULTURE, RURAL DEVELOPMENT, AND NUTRITION

527-0282

Agricultural Technology Transformation (DA)

FY 1990	25,000	23,199	1,801
FY 1991	25,000	23,699	1,301
FY 1992	25,000	25,000	0
FY 1993	25,000	25,000	0

527-0341

Employment and Natural Resource Sustainability

FY 1990	0	0	0
FY 1991	3,600	2,030	1,570
FY 1992	3,600	3,600	0
FY 1993	3,600	3,600	0

527-0353

PVO Support

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	8,000	700	7,300
FY 1993	8,000	3,000	5,000

527-0357

Policy Analysis for Private Agricultural Development

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	5,000	1,000	4,000
FY 1993	5,000	2,500	2,500

527-0358

Agricultural Technology Dissemination

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	20,000	1,457	18,543

## 527-0359

## Agricultural Credit and Rural Saving Mobilization

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	10,000	1,365	8,635

POPULATION

## 527-0326

## Private Commercial Sector Family Planning

FY 1990	0	0	0
FY 1991	5,000	500	4,500
FY 1992	5,000	2,400	2,600
FY 1993	5,000	5,000	0

## 527-0335

## Private Voluntary Sector Family Planning

FY 1990	9,815	6,753	3,062
FY 1991	9,815	8,546	1,269
FY 1992	9,815	9,815	0
FY 1993	9,815	9,815	0

## 527-0335

## Private Voluntary Sector Family Planning (HE)

FY 1990	1,985	1,985	0
FY 1991	1,985	1,985	0
FY 1992	1,985	1,985	0
FY 1993	1,985	1,985	0

CHILD SURVIVAL

## 527-0285

## Child Survival Action

FY 1990	15,804	10,387	5,417
FY 1991	15,804	10,387	5,417
FY 1992	15,804	14,237	1,567
FY 1993	15,804	15,804	0

## 527-0319

## Strengthening Private Sector Health Institutions

FY 1990	0	0	0
FY 1991	9,000	3,025	5,975
FY 1992	9,000	5,025	3,975
FY 1993	9,000	6,100	2,900

## 527-0319

## Strengthening Private Sector Health Institutions (POP)

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	3,000	730	2,270
FY 1993	3,000	730	2,270

## 527-0319

## Strengthening Private Sector Health Institutions (HE)

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	1,000	1,000	0

## 527-0272

## Private Sector Management Improvement

FY 1990	7,000	5,508	1,492
FY 1991	7,000	6,679	321
FY 1992	7,000	7,000	0
FY 1993	7,000	7,000	0

## 527-0340

## CLASP II (Andean Peace Scholarship II)

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	6,800	1,739	5,061
FY 1993	6,800	3,739	3,061

ENVIRONMENT AND ENERGY

## 598-527-0772

## ILD Private Sector Institutional Reform

FY 1990	11,288	4,088	7,200
FY 1991	11,288	6,475	4,813
FY 1992	11,288	8,275	3,013
FY 1993	11,288	10,075	1,213

COUNTERNARCOTICS INITIATIVEECONOMIC SUPPORT FUND

## 527-0244

## Upper Huallaga Area Development

FY 1990	9,400	8,200	1,200
FY 1991	9,400	9,400	0
FY 1992	9,400	9,400	0
FY 1993	9,400	9,400	0

## 527-0288

## Narcotics Education Initiative (EH)

FY 1990	2,317	2,317	0
FY 1991	2,317	2,317	0
FY 1992	2,317	2,317	0
FY 1993	2,317	2,317	0

## 527-0288

## Narcotics Education Initiative

FY 1990	3,143	2,200	943
FY 1991	3,143	3,143	0
FY 1992	3,143	3,143	0
FY 1993	3,143	3,143	0

## 527-0343

## Policy Analysis, Planning and Implementation

FY 1990	7,150	1,186	5,964
FY 1991	7,150	3,896	3,254
FY 1992	7,150	6,896	254
FY 1993	7,150	7,150	0

## 527-0344

## Economic Stabilization and Recovery

FY 1990	0	0	0
FY 1991	400,000	50,000	350,000
FY 1992	400,000	120,000	280,000
FY 1993	400,000	190,000	210,000

## 527-0347

## Narcotics Education and Community Initiatives

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	8,500	2,000	6,500
FY 1993	8,500	3,500	5,000

## 527-0348

## Selva Economic Revitalization

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	59,231	10,000	49,231
FY 1993	59,231	24,231	35,000

## 527-0349

## Investment and Export Promotion

FY 1990	0	0	0
FY 1991	19,515	4,500	15,015
FY 1992	19,515	14,500	5,015
FY 1993	19,515	19,515	0

## 527-0530

## Small Business and Employment Expansion

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	4,000	4,000	0
FY 1993	4,000	4,000	0

## 527-0352

## Judicial Reform

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	5,000	1,000	4,000
FY 1993	5,000	2,000	3,000

## 527-0356

## Democratic Initiatives

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	10,000	1,000	9,000

## 527-0360

## Non-Project Assistance/Health Policy Reform

FY 1990	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	30,000	7,000	23,000

ANNEX I

PERU COUNTRY PERFORMANCE - BUSINESS REGULATORY/ENVIRONMENTAL QUESTIONNAIRE

I. Business Regulatory Environment

A. Are private ventures permitted to compete on a fully equal footing with state owned enterprises or privileged groups?

Yes, preferential treatment of state owned enterprises has ended under President Fujimori. Studies are underway to determine the most effective way for the GOP to divest itself of almost all parastatals.

B. Does the country adhere to international standards for protection of intellectual property rights (e.g., patents, copyrights, processing and trade secrets)?

While laws and regulations conform with international standards, Peru does not generally enforce prohibitions against pirating intellectual properties.

C. Are foreign investors subject to any different treatment with respect to laws on ownership, employment, taxation, customs and judicial process than local businesses?

Foreign investors are subject to more complicated licensing procedures and differential taxes. The GOP is in the process of eliminating these differences. Employment regulations, customs tariffs and judicial process are on a par with locally owned businesses.

D. How much time/effort/money does it take for new corporations to be formed and licensed?

Small businesses can be registered and licensed in one day. Corporations require more extensive procedures to establish themselves as legal entities. Complete corporation formation and registrations may be accomplished in approximately 30 days.

E. How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside free trade zones)?

Recent revisions in customs tariffs and procedures have greatly reduced the time and money required to clear imports and exports through Customs. Peculation remains a serious problem.

F. Is the country a signatory to a trade and investment framework agreement, bilateral investment treaty and/or OPIC agreement with the United States?

No.



G. Does the country have laws and/or policies which inhibit the free flow of capital internationally, including restrictions on capital and profit repatriation?

In general there is a free flow of capital into and from Peru. There are no restrictions on exports of dollar profits by either foreign or local businesses.

H. Are labor unions significantly influenced/controlled/financed by political parties or other outside interest groups?

Labor unions in Peru are generally heavily financed and influenced by outside political forces. However, less than 3% of the Peruvian workers are unionized.

I. Are property rights of both men and women clearly and fairly protected?

Property rights of both men and women are clear and protected. Land titling continues to be an issue and problem. Agricultural land is difficult to seize through the judicial system and, as a result, is difficult to use as loan collateral.

Are legal disputes handled in a clear, predictable and transparent manner?

No. The judicial system continues to be subject to manipulation, excessive (and lucrative) bureaucracy. Judges and judicial staff are poorly trained and paid. Corruption makes for unpredictable decisions.

## II. Environmental Questionnaire

A. Has the government established effective coastal zone management laws and programs that promote the sustainable development of this environmentally sensitive and economically important area?

Coastal zone management laws have been established but the government does not have the resources to effectively enforce them. Without resources sustainable development of the coastal area is unlikely. Some environmental groups are investigating debt swaps and other activities, but none are underway.

B. Are there forest management laws and programs that ensure sustainable use/production of forest resources and socio-economic benefits for local communities (e.g. extractive reserves)?

The situation is identical to the coastal zones.

C. Does the government address agrochemical use problems? Are pesticides subsidized? Is there a government or private quality assurance program in place to ensure that pesticide residue limits are not exceeded on agricultural exports?

Agrochemical usage is high in Peru. Pesticides are not subsidized; however, many of the active ingredients used in their local manufacture are imported under waivers. Quality controls are minimal. The GOP does monitor water quality in a few urban areas. There are no quality controls for the majority of the Peruvian population. Coastal waters are monitored but there is no enforcement of pollution controls.

D. Does the government have incentives for sustainable agricultural practices? Is land use planning used as a tool to guide agricultural development? Are there appropriate incentives (property taxes, water user fees, etc.) to promote intensive, rather than extensive use of prime agricultural land?

No. Water user fees are so low that they are not significant to the farmers.

E. Are environmental health issues being addressed by policies and programs that control water and air pollution and that promote sanitation and sewerage systems? Are environmental monitoring programs (e.g. water quality monitoring) in place? Are water and sanitation programs linked to health and hygiene education? Is solid waste efficiently collected and disposed of in approved landfills?

Antipollution laws exist. Enforcement is almost nonexistent from lack of funding. Water and sanitation programs are not linked to education.

F. Are there programs/policies for watershed management, and are environmental assessments done to prevent watershed degradation? Are recommendations from such assessments effectively implemented?

Watershed management is a local responsibility. A few PVOs are active in this field and perform assessments but lack resources to implement most recommendations.

G. Are there environmental education programs and are they provided for all education levels?

Environmental education programs exist at a few levels. The programs are outdated and few instructors have been adequately trained to teach them.

H. Has the government established areas for parks and for the conservation of the country's biological diversity?

Peru has established a series of parks and preserves. Lack of funding prevents meaningful monitoring or control. Some PVOs active in these areas have limited activities underway.

I. Is there a national environmental policy or conservation strategy? Does the public including both men and women participate in environment and natural resource management and planning activities? Are NGOs encouraged to be involved in environmental issues?

There is a national environmental policy and conservation strategy. There is no funding made available to enforce or support either.

J. Are there policies and programs to encourage efficient energy use (e.g. energy prices are not subsidized, private production is encouraged)?

The GOP removed almost all subsidies to fuel and electrical energy. The impact of this action was temporary. Vehicle use has returned to nearly the same levels as when subsidies were active.

ACTION PLAN, FY 1992 - 1993 : USAID /

PERU

PERU

ACTION PLAN

PD-ABK-590

1 OF 1 (24X)

1991